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Canada Banking and Commerce
Standing Committee on, 1954

HOUSE OF COMMONS

First Session—Twenty-second Parliament, 1954

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(STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: DAVID A. CROLL, Esq.)

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 21

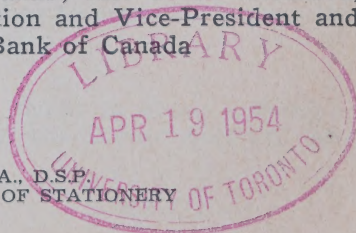
Decennial Revision of the Bank Act

TUESDAY, APRIL 6, 1954

WITNESSES:

Mr. C. F. Elderkin, Inspector General of Banks; Mr. T. H. Atkinson, President of The Canadian Bankers' Association and Vice-President and General Manager of The Royal Bank of Canada

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1954.



ORDER OF REFERENCE

TUESDAY, April 6, 1954.

Ordered,—That the following Bill be referred to the said Committee:
Bill No. 419, An Act respecting Savings Banks in the Province of Quebec.
Attest.

LEON J. RAYMOND,
Clerk of the House.

NOTICE OF MOTION

TUESDAY, April 6, 1954.

Mr. Macnaughton—On the Clause by Clause consideration of Bill No. 338, An Act respecting Banks and Banking—That Clause 21 of Bill No. 338 be amended by adding thereto the following new subclause (4):

(4) *A person is not eligible to be elected or appointed a director after the first day of July, 1959, if he has reached the age of seventy-five years.*

MINUTES OF PROCEEDINGS

APRIL 6, 1954.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Applewhaite, Benidickson, Cameron (*Nanaimo*), Cannon, Dumas, Fleming, Follwell, Fraser (*Peterborough*), Hellyer, Henderson, Hunter, Low, Johnson (*Kindersley*), Macdonnell, Macnaughton, McMillan, Michener, Mitchell (*London*), Monteith, Noseworthy, Philpott, Pouliot, Quelch, Robichaud, Weaver, Wood.

In attendance: Mr. C. F. Elderkin, Inspector General of Banks; Mr. G. K. Bouey, Assistant Chief, Research Department, Bank of Canada; Mr. T. H. Atkinson, President of The Canadian Bankers' Association and Vice-President and General Manager of The Royal Bank of Canada; Mr. Arthur C. Jensen, General Manager of the Bank of Montreal; Mr. C. S. Frost, Vice-President and General Manager of The Bank of Nova Scotia; Mr. A. T. Lambert, Assistant General Manager of The Bank of Toronto; Mr. Bernard Normandin, Assistant General Manager of The Provincial Bank of Canada; Mr. Neil J. McKinnon, General Manager of The Canadian Bank of Commerce; Mr. A. C. Ashforth, Vice-President and General Manager of The Dominion Bank; Mr. Ulric Roberge, General Manager of the Banque Canadienne Nationale; Mr. John S. Proctor, General Manager of the Imperial Bank of Canada; Mr. J. H. Vale, Vice-President and General Manager of Barclays Bank (Canada); Mr. M. Visser, General Manager of The Mercantile Bank of Canada; Mr. W. T. G. Hackett, Assistant General Manager of The Bank of Montreal; Mr. J. A. Fiott, Assistant to the General Manager of The Bank of Nova Scotia; Mr. C. B. Neapole, Assistant General Manager of The Royal Bank of Canada; Mr. J. D. Gibson, Assistant General Manager of The Bank of Nova Scotia.

The Committee resumed consideration of Bill No. 297, An Act to amend the Bank of Canada Act, and Bill No. 338, An Act respecting Banks and Banking.

Mr. Elderkin laid on the table the following documents, which are to be found as *Appendix "A"* to this day's evidence:

Exhibit 29: The Chartered Banks of Canada, Average Combined Rate of Interest and Discount on Loans Outstanding in Canada, 1934 to 1953, and

Exhibit 30: The Chartered Banks of Canada, Particulars of Increases in Rest or Reserve Fund and Paid-up Capital during the Years 1944 to 1953 and Totals for Prior Years.

Mr. Elderkin also laid on the table the following document:

Proposed Amendments to Bill 338, An Act respecting Banks and Banking.

The said document was ordered to be printed as an appendix to this day's evidence and is to be found as *Appendix "B"*.

Mr. Atkinson was called and examined.

The printed forms used by the Chartered Banks to obtain consent of customers to service charges on Savings Accounts and Current Accounts were tabled.

During the course of the examination of Mr. Atkinson, Mr. Elderkin answered questions specifically referred to him.

At 12.55 o'clock p.m., the examination of the Witness still continuing, the Committee adjourned to meet again at 3.30 o'clock p.m. this day.

AFTERNOON SITTING

The Committee resumed at 3.30 o'clock this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Benidickson, Cameron (*Nanaimo*), Cannon, Cardin, Crestohl, Dumas, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Hanna, Henderson, Huffman, Hunter, Low, Johnson (*Kindersley*), Johnston (*Bow River*), Macdonnell, MacEachen, Macnaughton, McMillan, Mitchell (*London*), Monteith, Noseworthy, Philpott, Pouliot, Quelch, Weaver, Wood.

In attendance: Same as at the morning sitting.

The examination of Mr. Atkinson was continued.

At 4.55 o'clock p.m. Mr. Weaver took the Chair.

At 5.15 o'clock p.m. Mr. Croll resumed the Chair.

At 5.35 o'clock p.m., the examination of the Witness still continuing, the Committee adjourned to meet again at 11.00 o'clock a.m., Thursday, April 8, 1954.

R. J. GRATRIX,
Clerk of the Committee.

EVIDENCE

TUESDAY, April 6, 1954
11.00 A.M.

The CHAIRMAN: Gentlemen, I see a quorum. Mr. Elderkin has a few returns to file.

Mr. ELDERKIN: Mr. Fleming stated that he would be interested in a statement of the average rate of interest on loans in Canada during the past ten years. I am tabling an exhibit showing the average combined rate of interest and discount on loans outstanding in Canada, 1934 to 1953.

(See Appendix "A", Exhibit 29.)

Mr. Noseworthy enquired regarding the changes in paid up capital of the banks, and I am tabling an exhibit showing particulars of increases in rest or reserve fund and paid up capital during the years 1944 and 1953 and the totals for prior use. (See Appendix "A", See Exhibit 30.)

As the minister stated in his speech in second reading, and as members of the committee will have noted in studying this bill to re-enact the Bank Act, the law officers of the Department of Justice have revised almost every section in the Act in order to effect the changes which have been announced and to improve and modernize the language generally throughout the Act. Subsequent to the introduction of the bill and the reference to this committee the draftsmen have reviewed the bill with particular attention to minor drafting details, and they have suggested a number of amendments for the purpose of making verbal corrections and clarifying certain of the provisions. None of the changes affect the substance of the bill. As these proposed changes are quite numerous, I would ask permission to have them printed and attached as an appendix to the proceedings to allow the members an opportunity of reviewing them before a motion for their adoption is made at a later date. (See Appendix "B").

On Thursday, in answering the question of Mr. Balcom regarding bank loans to small loan companies, I stated that the latter did not include those operating under provincial legislation. That answer was incorrect. Most small loan companies are provincially incorporated and to carry on business under the Small Loans Act, they must obtain a licence from the Department of Insurance. Therefore, the bank loan figures I gave included loans to all such companies.

The CHAIRMAN: Our witness is Mr. T. H. Atkinson, President of the Canadian Banker's Association and their spokesman in so far as he feels himself able to speak for all the banks.

Mr. Quelch will be the first questioner.

Mr. T. H. Atkinson, President, Canadian Bankers' Association, called:

By Mr. Quelch:

Q. Mr. Atkinson, would you agree that it is very desirable that we should keep the price of our exports at a competitive level with the price of other countries?—A. I would think that I could agree with that.

Q. There is a lot of talk today that we have in some respects priced ourselves out of the market—A. I have heard it said.

Q. Would you agree that monetary action would have a certain influence on our price levels as regards interest rates?—A. The movement of interest rates must of necessity have some bearing on the price level.

Q. According to the statements we have received, the profits of the banks are at an all time high, are they not, the chartered banks?—A. I believe that is true.

Q. The reserve fund is at an all time high?—A. That I could not say. I have not the figures of all the banks.

Q. Taking it collectively, it seems to be the highest level shown in record. Mr. Elderkin said that is right.

Mr. ELDERKIN: Yes.

By Mr. Quelch:

Q. And the dividends are also at an all time high?—A. I am not quite certain of that. Our dividend only last year equalled the dividend we paid back in the twenties. I am not certain of the comparison of other banks.

Q. In the table in the answer given to the question asked in the House of Commons it shows the dividends paid in 1953 as high as, or higher than any other year. Anyway they are at a high level?—A. They are not low.

Q. Well then, in view of that the thing that puzzles me is why you consider it necessary to increase service charges. I should have thought at a time like this there would be a tendency to reduce the charges rather than increase them. I am referring to section 93, subsection (2):

No bank shall directly or indirectly charge or receive any sum for the keeping of an account unless the charge is made by express agreement between the bank and the customer.

Now, when a person opens an account, whether savings or current, he signs a form, does he not?—A. Yes.

Q. In that form he agrees to what—certain charges being made?

The CHAIRMAN: Specimen copies of all the forms are now available. Mr. Quelch has copies of them. Any members who would like to see them may obtain copies from the clerk.

By Mr. Quelch:

Q. If a person refuses to sign any of these forms, will you refuse to take his deposit?—A. That is a very difficult question to answer. I am not at all sure.

Mr. APPLEWHITE: It would depend on how big the account was.

By Mr. Quelch:

Q. In view of the fact that the Act states that no charge shall be made unless an agreement between the bank and the customer is reached, then when a customer goes to the bank to open an account and he is requested to sign one of these forms it is not a question of reaching an agreement. The customer is doing what the bank tells him.—A. Could I reply at some little length? It might be interesting to the committee. The principle of service charges goes back in Canada some quarter of a century. It is demonstrable that chequing on particularly modest and small accounts is a very expensive operation from the standpoint of the banks. We have a cost committee who look into the chequing situation to ascertain what the costs are. So far as I am aware there is no country in the world, certainly no major country, where chequing is permitting on savings accounts at all. The practice has grown up in this country and is possibly the fault of the banks in starting it and educating the people to do it. But, it has been growing and has become a major problem of expense to the banks. Our service charges have been increased down through the years

occasionally, and prior to December 1, there was a system of service charges on savings chequing. I will not go into the whole formula, but basically it was 8 cents a cheque over an agreed on number. On December 1, the Canadian banks decided to increase the rate of interest being paid on savings accounts from 1½ per cent to 2 per cent. I may say that this was voluntary; there was no pressure for it. We agreed to pay to the Canadian public approximately \$20 million in interest additional to what had been paid in previous years. It was felt at the time that in paying out such a very substantial amount it obviously would affect the profits of the banks to quite a material extent, and it was felt also that that would be a reasonable time to bring the service charges up somewhat more in line but still considerably below the actual cost. I realize that there has been very considerable public criticism of that action. But, I think basically everybody has lost sight of the fact that the banks are paying out approximately \$20 million annually in additional interest, and the closest estimate we are able to get from our cost committee of the additional service charges which will be charged to the public as a result of this change will be in the nature of \$2 million which we feel is not out of the way. I think it has been the general feeling that the Canadian public generally would prefer to pay for a service which they are receiving rather than for somebody else to pay for it. I think it is perfectly obvious if the banks are going to operate at a profit at all that if one segment of the operation is at a loss then somebody else is paying for it. I do not know who, but somebody within the gamut of the classes contributing to bank profits must be paying for that loss.

By Mr. Fraser (Peterborough):

Q. I wonder if you could give the United States costs of savings and current cheques?—A. I have several here. Actually, as I said, in the United States there is no chequing against savings accounts at all. In their current account situation which is what they call a special chequing account—I have the Bank of Manhattan Company in front of me which is one of the large New York banks. I will not run through the whole thing. It is quite an involved affair. There is a charge of \$2 to open an account; 25 cents a month to carry the account; the only cheque which will be recognized is a special cheque sold to the client at a price of \$2 for 20 cheques, or, in other words, ten cents a cheque; if a cheque is drawn against an account and the account has not funds to meet it and the cheque has to be refused a special charge of \$2.50 is made; if a depositor wishes to make a stop payment the bank will charge a dollar for the service. I think those are all the charges.

Mr. FRASER: I thought that that should go in on account of what you said.

By Mr. Cameron (Nanaimo):

Q. Is that the general practice with American banks, or just a specific bank?—A. It is very general in so far as I am aware. I have several here. We have not checked every bank in the United States naturally, but we have checked very many of them and their charges. Comparatively speaking the sale of cheques at \$2 for 20 cheques seems to be prevalent in every case we have checked.

By Mr. Quelch:

Q. There is no charge specified on these forms?—A. No, because of the variable nature of the charges.

Q. You have given an explanation in respect to savings accounts. Could you also do the same thing for current accounts?—A. The current account situation is the same except that the charges are somewhat lower.

Q. Lower service charges?—A. For current accounts.

Q. Have you estimated what the loss will be as a result of lowering them?—A. We have not lowered them now. The charges against current account checking are lower as against savings accounts, and there have been no changes in the current account schedules recently.

Q. When you make loans under the Farm Improvement Loans and the business and professional loans to veterans you require a guarantee up to I think ten per cent?—A. We are given a guarantee under the Act.

Q. Was that asked for by the banks?—A. In the negotiations setting up the Act, I think it was proposed by the government, but I would not like to say that absolutely. It may have been a result of conversation.

Q. The losses under those Acts have not been heavier than the losses met on loans to farmers generally?—A. Rather less, I should say.

Q. Rather less. Well, do you consider that there is any need for that guarantee to be continued in view of the fact that the banks are doing so well? I should think that they would be in a position to stand a little risk themselves instead of asking the government to underwrite it?—A. I would agree with that statement as such. The reason for the guarantee by the government is that the banks are making loans which are not strictly banking risks. The basic thing, I think, is that we are not permitted under the Act to take a chattel mortgage, so that we in normal banking could not advance those farmers a loan against the security of implements, and there must be a special Act or provision in order to put us in that position. The guarantee, I think, is also an excellent thing from the farmer's viewpoint, because it does mean that banks will loan in a great many cases where they would not loan if they were carrying all the risk.

Q. Yes. Some of the banks appear to be very cooperative in making loans to farmers, but the main complaint there is the length of time for which the loan is made. Under the Act there is an allowance for loans to be made up to ten years. The general practice seems to be about three years. It would be a great help if the time could be lengthened. I realize that most of the loans are made for farm machinery which deteriorates pretty rapidly and therefore the banks may feel that they should get their loans back within as short a period as possible on account of the fact that farm machinery does deteriorate quite rapidly?—A. We are prepared to act under the Act.

Q. Under the Act it is a ten year period.—A. Not on machinery. Only on home improvements.

Q. Five years for machinery?—A. Three years for machinery. There are also limitations in the Act for small amounts. A \$750 loan must be paid in two years, a \$400 loan must be paid within 18 months, according to the Act. We operate under the limitations of the Act and cannot go beyond it.

Q. You do not feel that the banks are the ones really pressing for the guarantee against losses, but on the other hand you feel that the farmers benefit by it because as a result of that guarantee loans are made that might not be met otherwise.—A. Yes.

The CHAIRMAN: Would you mind pursuing the question on the amount of loan now available under the Act. The question was raised as to the adequacy of the \$4,000 limitation. There is such a limitation, is there not?

The WITNESS: Yes.

The CHAIRMAN: I think Mr. Tucker raised that point. We can save that for him.

By Mr. Quelch:

Q. Mr. Atkinson, in the February issue, 1954, letter of the Bank of Commerce, there is the following statement:

The task . . . is to maintain economic activity at current levels. Above all else it would seem essential, in this regard, that increasing attention be given to the consumption side of the equation.

Do you agree with that statement generally at the present time?—A. It would be rather unprofessional to disagree. I am afraid that is a question for an economist, and I am not an economist. I see nothing in it to disagree with.

Q. You would agree that largely, as far as the banks are concerned, they are not in a position to take care of that situation. So far as the banks are concerned, they are mainly interested in making loans for production rather than for consumption.—A. As a general rule, most of our loaning is against production, in the ordinary course of things. Loans against consumption, I believe you mean.

Q. I believe the Canadian Bank of Commerce does a certain amount in the personal loan field. It is of a very limited character, is it not? As a rule loans are made for production rather than to make it possible for a person to buy consumer goods?—A. All banks do make a good many personal loans, but the Canadian Bank of Commerce has specialized in that, and I naturally cannot report on their activities. It is general that all banks do make a great many personal loans.

Q. Can you tell us what the practice is? Do you insist upon an endorser?—A. I do not think there is such a thing as a practice. Many people have built up a credit standing whereby they may borrow on their own name with no security whatever. In other cases the security will take the form of a second name. In some cases it may take the form of two additional names. It may take the form of negotiable security, and there are other things. Each case is dealt with on its own merits, and I hardly think it could be said that there is a policy in general, a policy of setting security against a loan.

Q. When you require an endorser, do you ever require that the endorser take security from the initial borrower? You are not allowed to take security yourself?—A. I would not think that a bank would stipulate that.

Q. This has been quite general in the past, but I do not know whether it is the practice today. In certain circumstances in past years where an individual wanted to borrow from the bank, the bank was not prepared to lend to him unless he got an endorser. Then they insisted that the endorser be covered by taking a chattel mortgage on security of the borrower.—A. The bank insisted?

Q. Yes.—A. I would think that was a branch manager without any instructions from his head office.

Q. It is not a general practice?—A. It is not a general practice and certainly not covered by our instructions.

Mr. QUELCH: It might be a good idea.

Mr. MACDONNELL: Mr. Quelch speaks as an expert.

Mr. QUELCH: I happened to be one of the endorsers.

Mr. MACDONNELL: I spoke truer than I knew.

By Mr. Quelch:

Q. This was quite a few years ago. I think that that bank is not in existence today, but the local branch manager who made the loan said that you had to get the mortgage from him, and that may have had something to do with it.—A. I would say he was a very keen branch manager.

Q. The maximum rate of interest is six per cent, is it not?—A. That is right.

Q. There used to be quite a common practice—and I do not need to go back so far this time as I did before—when the banks loaned money to farmers charging the maximum rate of interest and then deducted the interest in advance from the loan. For instance, when it was eight per cent and a person borrowed \$100, he received only \$92, but he was paying the interest on \$100 instead of on \$92. Is that the practice?—A. We would go to jail if it were.

Q. It is only six per cent?—A. Six per cent simple interest.

Q. And you are not allowed to deduct the interest from the loan at the time it is made?—A. Yes, we may discount.

Q. Actually the individual would be paying more than six per cent?—A. No, it must be limited to six per cent simple interest. We may discount a bill.

Q. If an individual borrows \$100, the rate of interest is six per cent. In the case of a discount, if he is borrowing \$100 he receives \$94. They take it out before the loan is made. That is actually more than six per cent interest.

Mr. ELDERKIN: It is authorized by the Act.

The CHAIRMAN: The Inspector-general points out that section 91 covers that aspect. It is permitted under the Act. Whether it is done or not is a matter for Mr. Atkinson to comment on.

Mr. ELDERKIN: It says: "stipulate for, charge, take, reserve or exact a total charge in respect of interest or discount". They are both included, Mr. Quelch.

Mr. QUELCH: That is an addition to the rate of interest?

Mr. ELDERKIN: Yes, they may discount at six per cent under the Act.

The WITNESS: That is the only situation where we can recover more than six per cent simple interest.

By Mr. Quelch:

Q. Personally, I think that is rather an undesirable practice. I think that if you want to borrow \$100 you ought to get \$100.—A. I think the average borrower does. He borrows what he wants and pays the interest on what he borrows.

Q. I have not any recent experience. I am thinking back about eight years or so.—A. The practice of discount is much more applicable to trade bills, where the definite amount is owed by the debtor and when the draft is drawn on him, obviously you cannot add interest, so the practice is to discount that bill for the shipper.

Q. Now, I would like to go on to another question. I think that you were here when Mr. Towers agreed that under certain sets of circumstances, at times when you have a large degree of unemployment and it is desirable to increase private spending, it might not be desirable for the government to be limited to obtaining money by borrowing from the people or by taxation, it might be desirable to do it by monetary expansion. It is a question whether or not in those circumstances the government should borrow from the Bank of Canada instead of borrowing from the chartered banks. In the past it has usually been argued that it would be more inflationary if the government borrowed from the Bank of Canada than from the chartered banks, as such borrowing would expand the cash reserves of the chartered banks, enabling them to expand their loans. Now that we have made the cash reserve requirements variable, that could be done without danger.—A. That is so, to a degree.

Q. You will not consider the action as being any more inflationary than if the government borrowed from the chartered banks themselves?—A. That is really a question for the central bank to answer. We would not have sufficient information to know what pressure such borrowing would put on the economy and whether or not the variable ratios would be sufficient to check it.

Q. It would be up to the Bank of Canada to increase the cash reserve requirements to whatever level was necessary to prevent inflation from growing?—A. That is right.

Q. You make short-term loans to the government at times for a very low rate of interest, do you not?—A. During the war years we purchased large amounts of deposit certificates at rates well below one per cent.

Q. Do you consider that on that transaction you actually lose money or are you using what you might call surplus credit, which is not being used and, therefore, can be loaned at a cheaper rate?—A. I doubt very much if that question could be answered without a great deal of research. For instance, when we bought deposit certificates at $\frac{5}{8}$ per cent, obviously there would be a gross profit of $\frac{5}{8}$ per cent, because it was very definitely simply a situation where we were getting $\frac{5}{8}$ per cent on new money created by that transaction, but as the turnover of that money being spent took place and as those funds accumulated and built up our savings accounts, there came a point, I presume—without research I could not say—where we were actually losing money, because as that money flowed into the savings accounts it attracted an interest of $1\frac{1}{2}$ per cent at that time. Whether or not you can follow those figures through and prove a point, I am not sure. To the best of my knowledge no such examination was ever made.

Q. If the government is financed from the Bank of Canada, does that mean that you would be servicing the deposits arising from that amount free of charge?—A. Free of charge in current accounts or to the degree they flowed into savings accounts we would be paying interest.

Q. The main objection to that transaction is that the chartered banks serviced those accounts without any remuneration as far as the actual borrower is concerned?—A. Yes, but, of course, I would not say that the banks objected to it as a transaction.

Q. You say that so far as the bank is concerned you have no objection to the transaction. If you lose money on the one hand you might have to increase service charges or take action along other lines?—A. As the money would come into use, we would assume, it, to a degree, would flow into earning assets, in which case we would hope that under proper management we would make a profit on the whole picture.

Q. If you only got an increase in the cash reserves to a point where you could not increase your loans?—A. That would be quite another picture.

Q. As long as you were able to utilize part of that increased cash reserve in making additional loans, it would not have an adverse effect on the chartered banks?—A. Assuming that we could attract earning assets, it would be presumably a profitable transaction for the chartered banks.

Q. Just one more question. In regard to your dividends, at the rate you have been paying there is a limit of up to eight per cent provided. What is the limitation?—A. The limitation is in connection with the reserve fund.

Q. The reserve fund is now so high that there is practically no limit to the dividend you can pay?

Mr. ELDERKIN: That is on page 31, Mr. Quelch, section 70, subsection (3).

The WITNESS: The rest account must be equal to at least 30 per cent of the paid-up capital stock.

By Mr. Quelch:

Q. At the present time you have a very wide margin?—A. Very comfortable.

Q. What at the present time do you consider the limit to the amount which you could pay on dividends? You do not want to go as far as the Act

would allow you at the present time? What do you consider the governing feature as to what your dividend should be?—A. Well, our earnings are the governing feature.

Q. Yes, but I mean as an alternative. In view of the fact that you are in a very healthy position today—your profits are at an all-time high, your dividends are at an all-time high, your reserves are at an all-time high—would you consider, for instance, instead of increasing dividends it might be advisable to lower charges?—A. That is a constant movement within the banking situation.

Q. If you were absolutely certain that conditions would continue as at the present time, you would probably be more liable to make a reduction in the charges, but I suppose that in view of the fact that conditions may not be so good in the future, you would not want to lower charges and then increase them again? Has that anything to do with it?—A. Yes, that is always considered. It is not good practice to be lowering and raising charges frequently.

The CHAIRMAN: Or even raising them infrequently.

The WITNESS: Again, while the dividend action is not a general manager's function—that is decided by the board of directors—I do not think any bank is unconscious of the fact that we have been going through very good times with comparatively small losses, and really the prosperity of banks depends to a very large degree on loss experience.

By Mr. Quelch:

Q. I want to ask some questions on contingency reserves, but I think I will wait until Mr. Elderkin comes back in regard to his statement. Just one more question I would like to ask Mr. Atkinson. Whether the rate of interest on savings has been fixed at two per cent?—A. Yes.

Q. That is payable only on the minimum quarterly balance?—A. That is right.

Q. That means that if for three months a person has, say, \$2,000 in the bank, and then in the last week of that quarter he draws out all except \$10, he would get interest on only \$10?—A. That is correct.

Q. The actual amount of interest paid would be considerably lower than two per cent?—A. Somewhat lower than two percent on the total, due to that variance.

Q. When you paid $1\frac{1}{2}$ per cent, it averaged about what?—A. I think the actual figure was 1.24 per cent.

By Mr. Macdonnell:

Q. Could he borrow from you on the security of the deposit to tide him over for a few days?—A. It is not unusual for a person, by borrowing, to continue his account over an interest period.

Q. It would cost him an amount of interest. How much?—A. It depends on the number of days, the length of time that he needed to borrow in order to protect his interest situation.

Mr. CAMERON (*Nanaimo*): You mentioned just now the importance of taking into consideration the loss experience of the banks. There have been some statements placed on the record this session in hearings of the Banking and Commerce Committee with regard to the possible rate of loss of the chartered banks. We had, for instance, the statement of Mr. Towers, or a

quotation from Mr. Towers' statement, on the proposed decennial revision, at page 29 of volume 1 of the 1944 proceedings. Mr. Towers at that time had this to say:

When I first went into banking business about 25 years ago, I recall that those who were then experienced in it assumed that about one-half of one per cent per annum on total loans was the loss ratio which could normally be expected.

The CHAIRMAN: What part of the page?

Mr. CAMERON (*Nanaimo*): Page 29.

The CHAIRMAN: Start all over, will you, please?

By Mr. Cameron (Nanaimo):

Q. We can leave it at that. I just wanted to refer to that statement and ask Mr. Atkinson a question on it—A. I have read that paragraph.

Q. Would you agree that that was a reasonably accurate estimate at that time in 1944?—A. I should not like to commit myself without checking figures. On the other hand, I have not anything in my mind that I should quarrel with it.

Q. That leads me to my next question. If Mr. Tower's statement in 1944 was substantially correct, we have to bear in mind that it included all the years of the great depression, the period he was referring to. Then, what would you suggest would be the rate of loss since 1944?—A. Exhibit number eleven shows the average annual loss at 7.8 million for 1953. That is the average of the 15 year losses. The average of the 15 years prior to 1952 was 9.4 million. I have not worked out the percentage.

Q. That was the average loss for the whole of the chartered banks?—A. That is right.

Q. That brings me to the next question. Perhaps you may recall that Mr. Stewart, who was the Assistant General Manager of the Bank of Commerce, also gave evidence before that previous hearing with regard to the losses, and that appears in volume one page 316. Mr. Stewart on that occasion, as you will see, gave the experience of his bank in the personal loan department for a period of 7½ years up to 1944.

The CHAIRMAN: On page 316?

Mr. CAMERON (*Nanaimo*): Yes, page 316.

The CHAIRMAN: Who is questioning?

Mr. CAMERON (*Nanaimo*): It is a question by Mr. Macdonald and it is about half way down the page.

The CHAIRMAN: Yes. I have it.

By Mr. Cameron (Nanaimo):

Q. You will see there Mr. Stewart reports that their actual loss experience was ¼ of one per cent?—A. That is in that specialized field.

Q. Yes. Here is the question I would like to ask. In view of the fact that that specialized field dealt with the people who because they lacked financial background, as Mr. Stewart referred to it, have difficulty in obtaining money in the ordinary circumstances, would not you agree that if that is the rate of loss for that particular class of borrower that the rate would at least be no larger for the general banking business itself?—A. I am not at all familiar with that particular field of loaning. That is a specialty of the Canadian Bank of Commerce.

Q. These are people who have been unable to get loans previously or had difficulty because they lacked the collateral and security. Is it not reason-

able to assume that the rate of loss among that group would be at least as high of the whole picture?—A. Put that way, it is reasonable, but I cannot answer the question.

Mr. APPLEWHAITE: Where do you find the figure $\frac{1}{4}$ of one person?

By Mr. Cameron (Nanaimo):

Q. In actual fact the banks did not lose anything because they put it on the guarantors, but these were the only loans in default and that was the ratio of the loss. I do not think that the banks ever do lose.—A. We are still searching for that Utopia.

Q. I would like now to turn your attention to your own bank's balance sheet for the year ending 1953. In that we note that you had a total of loans and discounts including charges against possible losses of \$994,865,750.13. Now, of course I am not able to even guess in that figure what constitutes the loss or constitutes the charge against losses, but in order to be on the conservative side let us assume that the whole thing was loss, that is the \$994 million was your total of loss. Now, if we take even Mr. Tower's figure of $\frac{3}{4}$ of one per cent, in spite of all the evidence it must have been very much lower because we find that the maximum loss on that amount would be \$7,461,493.13, rather interestingly enough almost exactly the figure that you have just quoted as the average loss for all the banking system. Now, I suggest to you that there is further evidence that your rate of loss must be a very small fraction even of $\frac{3}{4}$ of one per cent?—A. It must indicate great competence.

Q. I assume that there is great competence. What I am wanting to find out is what is the result of the competence, because there are as you know at the present time people who are a menace to society by virtue of their very competence. Now, in this I did not include short loans because you are covered completely by securities of sufficient marketable value to cover. I put it to you this way: have you really no idea at all of what your percentage of loss was in the last year?—A. I know what our losses were in the last year.

Q. Can you give us a percentage, percentage of loss to loans?—A. Really I would hope that you would not press that question.

Q. I presume, Mr. Chairman, that it is a question we should have answered, otherwise we cannot possibly assess the value of the evidence with respect to the necessity for reserves. We are told that the banks effective reserves of cash are to cover possible losses.

The CHAIRMAN: Please take another line for a little while.

By Mr. Cameron:

Q. Then we go on to the question of the banks losses on investments. As I understood from the evidence of Mr. Elderkin the other day, one of the problems of a bank is the question of losses in value of investments. In your bank statement you have your portfolio pretty well set out, what it consists of, and I notice there that you have nearly two thirds of your investments in government securities?—A. That is right.

Q. Now, would you suggest that there is much possibility of loss in those government securities?—A. Ultimate loss, no. But, as the Inspector General pointed out, under the law if there is a drop in market values we must provide for carrying them on our books at market value rather than at book value, so that over a period—and the recent two or three years have been such a period—the banks had to provide very substantial amounts to write our investment account down to the market valuation.

Q. Are you referring now to the portfolio of government holdings?—A. Yes.

Q. Over the last two or three years?—A. Yes, very substantial amounts.

Q. I think that you should inform the Bank of Canada of that because they are apparently under a misapprehension. In their statement Government of Canada 15 year bonds have only dropped since 1947 1/10 of one per cent, the 9 year ones are almost in exactly a similar position, and the 5 year ones similar. When we come on to the 2 year ones we find that they have never dropped at all, but have gone up steadily since 1947. Now, what years do these substantial losses obtain to?—A. Perhaps it would be wise if this afternoon I gave you a list of prices of government bonds over recent years which will show the fluctuation that we had to provide for. Average yields I do not think can carry a proper reflection of the point you are raising.

Q. Now, let us turn to the remaining third of your portfolio, 37.7 per cent, I believe, was security investments, and they consist very largely of provincial, municipal, and public securities other than Canadian. Now, do you consider that those are fairly safe high grade investments not subject to a great deal of fluctuation?—A. Subject to fluctuation, but not to ultimate loss in great degree.

Q. After that you have about 8.1 per cent of your total security investments. To go back first of all, would you include in your report on the fluctuations of investments the fluctuations of provincial, municipal and public utilities in your portfolio?—A. We will get those for you of typical ones.

Mr. CAMERON (*Nanaimo*): Yes. Now, Mr. Chairman, since you have asked me to postpone just now the other, I will leave off here on the understanding that I will have a chance this afternoon to pursue it.

The CHAIRMAN: Yes.

By Mr. Weaver:

Q. Just while we are on this particular point I have a few more questions on it. Would it be correct to say that the banks are now the vehicle for dealing in the credit of the country as a whole? I mean the money you handle goes through you, but does it at any time really belong to you!—A. Basically, the money belongs to other people.

Q. Well, to the country as a whole?—A. That is right, with the exception of our modest amount of capital and reserves which belong to the bank.

Q. And the difference between the interest you get on loans and the interest you pay out later is really your commission for doing that job in the country?—A. Yes. These are earnings with which to pay our overhead and other expenses in various forms.

Q. Now, as the credit of the country grew, say Canada doubled in size, actually then if you kept the same relation as other banks—I am speaking of the Royal Bank now—you would require practically double the amount of reserves at that time as you do now at the present time?—A. If our figures doubled, we would require double reserves, yes.

Q. You would not consider that these contingent reserves belonged to you until you had paid tax on them?—A. Oh, no. They belong to the bank, but not to the shareholders.

Q. Then, if losses got less and you found that you had more of these contingent reserves on hand than you need, would you then bring them out and pay tax on them and then they would become the property of the shareholders?—A. The minute that the Minister of Finance declares that we have more than sufficient reserves we have no option and must declare them as profit and pay tax, and the residue becomes the property of the shareholders.

Q. On page 3 of your statement, this reserve fund including \$12 million transferred from contingency reserves in 1953, is that really what has happened there? That is not needed now and is declared?—A. That was not

part of the contingency reserves that the Inspector General mentioned in his statement. That \$12 million was transferred from reserve which was on our books and tax paid.

Q. Forgive me for coming at it this way, but I am trying to get it in a way that I can fully understand it myself. Just to satisfy myself on the profits for last year, in respect to the \$18 million as shown in your statement I would like to get the relative amount as opposed to the job of doing the business. What are the overall expenses leaving aside interest paid and interest taken in? I mean the cost of paying the salaries. I am trying to get an idea of the size of the business in relation to profits. What would be your expenses in that respect, not interest expenses?—A. Schedule Q, which I think is filed as an exhibit sets out those current operating expenses which you are asking for.

The CHAIRMAN: Page 795.

By Mr. Weaver:

Q. This is for all banks—A. Yes.

Q. What I meant was just something that I can relate with the \$18 million of the Royal Bank?

The CHAIRMAN: I would ask you for the moment not to pursue that line of questioning until I have had an opportunity to give some thought to its relevancy. That information had not been previously disclosed in detail during the hearings in 1944 and 1934. We will have to give that matter some thought. Can you pursue your line of questioning without that particular information?

Mr. WEAVER: Yes. Could I say just a word on this? When I take a mining company's statement, for instance, by going over it I see the amount of revenue that has come in to it and the amount of expenses it has had to make that revenue, and I can see their relationship of profit through that, and in that way I can have an idea as between different companies about what their payments to the shareholders are relatively and my offhand observation on looking those over is that it is not any more than it would be with any other company of similar size. I also see the point that it probably would not be fair for this committee to have one bank disclose its business as against another bank. I do not mean to do that, but I wanted to get some means of measuring the job that a bank does as against the job that another company in the country does.

Mr. ELDERKIN: You have it for all banks as a whole in that exhibit.

Mr. WEAVER: I see what you mean.

Mr. ELDERKIN: All the details for the banks as a whole are in the respective columns of the exhibit.

Mr. WEAVER: Actually I missed that point, and you do not need to go into that.

The CHAIRMAN: All right.

Mr. WEAVER: I would like to ask two or three more questions on the increase in the cost of the cheques. You have mentioned the practice of American banks, and you show the cards that a depositor would undertake to agree to in doing business with an American bank. Do they all charge those amounts according to that schedule or is that what they are permitted to do, and do they charge somewhat less?

The WITNESS: The advice I read out is the advice they give their clients. What their legal possibility is, I do not know.

The CHAIRMAN: Mr. Atkinson, as I understood the information, it varied slightly between bank and bank in the United States. There is some variation?

The WITNESS: That is right.

By Mr. Weaver:

Q. How does that particular change come about? Do all the banks do it at one time or does one bank do it and the others follow suit, or are there some that do not do it?—A. In this particular case, all banks decided to do it at one time.

Q. Did they decide on it as an association, or how was the decision arrived at?—A. At a meeting of general managers.

Q. Mr. Quelch brought out the point that a person could not open a savings account without agreeing to pay the charges, and yet, as I understand it, the Bank Act says that they cannot be charged if they do not wish it. Would it not be wise to write a revision into the Bank Act so that that situation did not arise, the situation of not being able to start an account without agreeing to these charges?—A. I think that that situation can be taken care of by branch managers.

Q. I cannot see where Mr. Quelch's point can be taken care of in that way.—A. I think Mr. Quelch's point was, would we open an account if the customer refuses to sign an agreement? I said that I think that could be taken care of by a branch manager.

Mr. QUELCH: What do you mean by "can be taken care of"?

The CHAIRMAN: They want a "Yes" or "No".

The WITNESS: They are very persuasive gentlemen. To my knowledge, the point has not arisen, because people, generally speaking, want to pay for the services they get, and if it is demonstrated to them that the service is costing so much, as a general rule, they are quite prepared to pay.

Mr. QUELCH: You do not think that it is probably because they are not aware of section 93?

The WITNESS: As members of this committee, we were unaware of that, of that section.

Mr. WEAVER: I think that your statement was very fair on that, but I think that it still leaves room for misunderstanding regardless of whether it is a service that is well worth while or otherwise. I think there is room for understanding on the situation.

The WITNESS: You mean, what would a branch manager do if a man refused to sign the agreement? If he felt that the account was one which would require charges and was, therefore, not attractive without charges, I would gather—I have not been a branch manager for a long time—that he would say, "I am sorry, but we cannot operate an account for you if you do not meet our requirements". I imagine that would be the logical answer.

Mr. APPLEWHAITE: Would he have the legal right to do that?

The WITNESS: There is nothing in the Act which says we must open an account for anyone.

Mr. WEAVER: I will leave it at that for the moment, Mr. Chairman. But, Mr. Atkinson, would you tell me this? This is a growing country and there are sections of the country that are without banks, and as time goes on branches will move in there. What steps should be taken in any particular part of the country that is without banking facilities to attract a branch there? You may not be aware of them.

The WITNESS: In actual practice, I suppose, within our bank, there is not a week that goes by that we do not have requests to open banking services from boards of trade, chambers of commerce, or merely individuals, who point

out to us that they are living in a community without banking services and that they feel that there is a sufficient field to attract a bank. I would imagine that each bank is investigating those cases constantly.

Mr. WEAVER: That is all, Mr. Chairman.

Mr. MACDONNELL: Mr. Atkinson, I am afraid that you have made banking look so attractive that Mr. Cameron is going to sell everything he has and invest in bank stocks. I would like to ask one or two questions. Referring to what you said first about the imposition of these charges, you said, I think, that they were imposed because they were related to the cost of rendering the service, and that you felt that people thought they were fair. I think you will agree that anyone looking at the matter in general is apt, unless he has such an explanation as yours, to look at it in just the way that Mr. Quelch was suggesting: the banks are doing awfully well and paying good dividends, and why do they need to charge more for these services? Can you explain whether you arrived at this on a cost basis on the ground that each department should pay its way? That seems to be sound in principle. Could you now tell us whether your business is divided up roughly into departments, and give us a general indication of what they are and whether you try to see that each of them pays its way? While I am asking this long question, may I ask you to indicate whether you regard these last years, when admittedly the banks have been doing very well, as typical, or whether in times of boom and rising prices you escape losses and, at the same time, you make high earnings? To finish this very long question, will you take us back over the years and let us know whether in fact you had at times to take any heavy losses, where the bonds in your portfolio have shown losses not of one or two but of seven or eight points, which I understand you have made from time to time. You cannot just sit back knowing that one day they have to be paid. Finally, will you tell us whether in fact losses on occasions in these last, say, 20 years have been such that banks have had to cut into their reserves. That is a long question with a great many aspects, but I have got it off my chest now.

The WITNESS: As you will see from form "Q", the bulk of our earnings comes from two sources. One is the loaning business and the other is the portion of our assets invested in securities. The third basic revenue producer is the profits on exchange, commissions on various services, service charges on the operation of accounts, and all the dozen and one different small avenues of revenue which are available to banks for the services which they render.

Mr. FRASER (*Peterborough*): Including investment?

The WITNESS: That is one of the two large avenues that I mentioned. Loaning is the largest, revenue from investments is the second, and the third is that grouping of small services that we render in many ways to the public. To answer one segment of your question, Mr. Macdonnell: I think it is agreed generally that the past two or three years have been very outstanding years for prosperity and activity in this country, and it seems to me only logical that in a period such as that bank earnings would be high.

Mr. MACDONNELL: Why do you say only "two or three years"? You would not agree that it has been for the last 15 years?

The CHAIRMAN: "18" is the term we have been using.

Mr. MACDONNELL: Thank you, Mr. Chairman. I think that if you look at the first three it may not be quite the same.

The WITNESS: Since 1939 we have had a very favourable atmosphere for bank earnings, there is no doubt about that. The last two or three, I think, have been rather outstanding, and it is too much to hope for a continuance. So far as losses have been concerned, in a period such as that you do not anticipate the sizable losses which can come about for an ordinary period. I thought from the

tone of your question that you probably expected me to go back considerably further than that. There was a period in the bad thirties when the banks, in common with all businesses, suffered very severely. In our bank and in other banks it became necessary, to take care of those losses, to transfer amounts from outside reserves to inner reserves, because of losses sustained.

Mr. MACDONNELL: You were not exceptional?

The WITNESS: No, I think that is true of all banks. I am not sure that all had to take that action, but several did. The average loss is hardly a criterion of the necessity for provision, because while the average loss is shown here in recent years as \$7.8 million, that does not mean all by any means.

Mr. CAMERON (*Nanaimo*): That is not a loss. That is provision for losses too.

The WITNESS: That term means that those are actual losses.

By Mr. Macdonnell:

Q. Would it be possible that you could have over a term of years a very small ratio loss but nevertheless in that period there could have been a situation where banks could have gone bankrupt because of exceptional losses in a certain year? After all, they have to remain solvent all the time. They cannot just remain solvent on the average.—A. That was the point I was getting at. The average loss is not a criterion of a provision necessity, because losses are not average to the year. Losses come about in particular periods and even in periods of prosperity. I think when you see the fluctuations in bond values that took place since the war years you will see that the banks had to provide for very substantial amounts of money in their contingent reserves to take care of the very substantial drop in Dominion of Canada bonds loaned. Due to the change in the money market in recent days, that has to a large extent changed.

Q. Could you give us a figure showing the approximate size of loss which banks would suffer from a drop of six or seven or eight bonds in the bond market if that happened over a short period, what would that mean to you?—A. To use a broad term which I think might demonstrate it, assuming that the total investment account of the chartered banks is of the nature of \$4 billion—without calculation I do not think that is far out—there would be a 6 point drop on \$4 billion, which would, I think, but I sometimes get confused on zeros, be of the nature of \$240 million.

Mr. MACDONNELL: I do not want to get Mr. Cameron frightened now.

Mr. CAMERON (*Nanaimo*): I am not at all frightened. If I were a bank shareholder, I would not have a qualm.

Mr. FRASER (*Peterborough*): I think that Mr. Atkinson got me wrong. I meant by investment not the money they made on their own investments, but the investments that the banks carry on for clients, by bonds and so on.

The WITNESS: That is one portion of our revenue in service charges, yes.

Mr. MACDONNELL: The only other thing I would like to ask you, Mr. Atkinson, is a question with regard to the significance, if there is any, of the recent call of \$2 billion of government bonds. Now, I assume that those would not have been called unless the government believed that they could refund at as good a figure or better. My question is this. We do know that the United States Republican financial authorities, with a great flourish of trumpets, came in talking about hard money—I think they even used the term “honest money”—and they had to make a complete right-about face. I presume the situation is that they are pursuing soft money as hard as they can. Bonds have gone up, if my recollection is correct, an almost incredible amount in the last few months.

The CHAIRMAN: American bonds?

By Mr. Macdonnell:

Q. Yes. Something like 10 points or very near it. My understanding of that is that in the United States it is, in plain words, an attempt to stimulate the economy by inflation. Is that a fair statement? Would you disagree with that as a statement of what is going on in the United States?—A. It would appear to me—I would rather put it—to be an anti-deflationary measure.

Q. I don't think you are disagreeing with me. We sometimes use more direct words in the life I am in, though we are not always supposed to. I want to know whether it is reasonable to regard what is going on in Canada as a pursuit or a following or a change-over to what is happening in the United States. I do not know whether that is a fair question to ask you, but the chairman will always tell me whether it is.

The CHAIRMAN: The chairman thinks you ought to wait for that answer until Thursday.

Mr. MACDONNELL: I would like so much to know before tonight, Mr. Chairman.

The CHAIRMAN: As a matter of fact, you will know before the rest of us do. The budget speech will be delivered in advance to you as financial critic of the opposition.

Mr. MACDONNELL: I want to have it interpreted for me by competent authorities.

The CHAIRMAN: On Thursday he will be here in an interpretive mood.

Mr. APPLEWHAITE: I would like to ask Mr. Elderkin for the basic of this service charge. I take the first one of these forms and it says in part:

The undersigned expressly agrees that the said bank may make reasonable charges at its discretion for keeping such accounts.

The section of the Bank Act says:

No bank shall directly or indirectly charge or receive any sum whatsoever for the keeping of any account unless such charge is made by express agreement between the bank and the customer.

My question to the inspector-general is this: Is it not the obvious intention of the Act that the customer shall know what the charge is before it is made, and not that the charge should be left to the discretion of the bank and be variable from time to time?

Mr. ELDERKIN: I cannot say, of course, about the intent of parliament, but it has been interpreted to mean that the customer could sign a contract with the bank which permitted the bank to make changes from time to time.

Mr. APPLEWHAITE: It says, "unless such charge is made by express agreement between the bank and the customer". I would like to take it up when we come to the clause-by-clause part.

The CHAIRMAN: I would ask you to exhaust the question here, so that when we come to the clause-by-clause session there is nothing left but the clause.

Mr. APPLEWHAITE: My opinion is that it is not the intent of the Act.

Mr. WEAVER: That was my point a minute ago. I was thinking it would be better to change the Act to remove that confusion.

The WITNESS: May I say something to that?

The CHAIRMAN: Yes, quite.

The WITNESS: It was, I think mistakenly decided in connection with this recent increase in charges, that as they applied only to a small proportion of depositors, not all, it would be better, rather than a general announcement in the press and otherwise, to leave it to the branches to explain the charges

to those clients who would be affected. It seems obvious that that was not done. The branch staffs did not do it, because obviously a number of people did not know about the change in charges. I do not want to defend that, because I want to say on the record I think that was a mistaken piece of judgment.

Mr. QUELCH: Could I ask one question based on the answer Mr. Atkinson gave to Mr. Macdonnell. You referred to the fact that there had been heavy losses in the thirties. Referring to exhibit 10, in the Banking and Commerce proceedings 1944 volume 2, it gives the list of the dividends paid in the back years. For instance, the Bank of Montreal in 1930 paid dividends of 12 per cent, and in 1932 10 per cent; and the Bank of Nova Scotia in 1933 12 per cent; the Royal Bank paid 12 per cent in 1929, 12 per cent in 1931, 10 per cent in 1932, and 8 per cent in 1933. If the banks were suffering heavy losses during those times then those dividends were not paid out of current earnings.

Mr. FRASER (*Peterborough*): You have to figure the price of the stock in there.

By Mr. Quelch:

Q. It will be paid out of the reserve fund?—A. No, I do not think so. I think they were paid out of current earnings. I was not speaking of operating losses, I was speaking of debt losses. You might have very substantial debt losses when your current earnings are still reasonable.

Q. In the depression the banks had a substantial operating profit right through the depression?—A. They still had some operating profit, but I would not think it was regarded as being substantial.

Mr. FRASER (*Peterborough*): You have to figure the market value of the stock at that time.

The WITNESS: The percentages shown here is, of course, as against the par value of the stock. Just the par value. The dividend is based on the par value of the stock, which applies to somebody who bought the stock at the original par value, which I think would be difficult to find now, because to the best of my knowledge no bank stock has sold at par for many years.

Q. The reason it has gone up is because it is quite a profitable business and earnings have gone up. If the banks were not making a substantial profit the stock would not have gone up away beyond par? Would it?—A. To the extent that earnings were left in the business, the shareholders' equity is very much greater than the par value of the stock. This return is not based on the shareholders money in the business. It is based on the original official par value of the stock.

By Mr. Michener:

Q. Mr. Chairman, I have two questions not related at all to what has gone in, but perhaps they are relevant in a 10 year review of the situation. The first one is about the bank transactions in gold. Do the chartered banks now have any transactions in gold?—A. If gold coinage were presented for payment we would as an agent act for the redemption of it. We do not hold gold at the moment. Another transaction we have in gold in fairly substantial amounts now is the storage of gold for a fee. At the moment I cannot think of any other gold transaction.

Q. Either inside or outside of Canada?—A. As an agent I think all banks may in recent years have bought or sold gold from clients.

Q. Who as an agent would you be acting for in the storage of gold?

Mr. HELLYER: Many people.

By Mr. Michener:

Q. Producers and gold mines?—A. No. Basically, I think, foreign-owned gold.

Q. I do not know whether you finished the answer about transactions of gold outside of Canada, for example, through your branch offices in the United States could you buy and hold gold there?—A. I know of no recent transactions, Mr. Michener.

Q. Is it a matter of regret to the shareholders that the transactions in gold are not permitted?—A. I do not think we have even thought of it recently.

Q. It is so long ago that it is past your memory?—A. I have not been conscious of any regrets.

Q. The other question is about relations of the chartered banks with the Bank of Canada. We have heard something about them today. Would you say that the operation of the system as it now is constituted is entirely satisfactory to the chartered banks in relationship with the Bank of Canada?—A. Personally I would say very much so.

Q. No problems or difficulties which you feel ought to be aired at this time?—A. No.

By Mr. Hunter:

Q. Mr. Chairman, on page 773 of the minutes of the banking and commerce committee I judge there that you would infer from what Mr. Macdonnell said, and perhaps from what Mr. Cameron said, that there is a suggestion that the banks made quite a profit during the war on the financing of the government's war expenditures. I would like to get Mr. Atkinson's comments on that?—A. As I mentioned to some questioner before I do not believe it is possible to make a calculation as to what that situation was. I think about the only thing I can say is it did build up our figures substantially and those figures have remained high since then, so that I do not think any banker would complain that that situation cost him money in the long run.

Q. What I am getting at is I judge that there has been a criticism that the banks were making a profit. It was never my impression, but I would like to get your views expressed for the committee.—A. As I mentioned, this financing was done at varying rates, $\frac{5}{8}$ and $\frac{7}{8}$ per cent, and to the extent that that money flowed into savings accounts where we paid $1\frac{1}{2}$ per cent there was on that portion of the business, presumably, a loss. But, as I say, without a calculation, which I think is impossible, I do not believe that you could reach an overall conclusion. I think what they are getting at is that particular period, and I do not think a bank's earnings showed that they were gaining any terrific amount by virtue of government finance at that time.

Q. Now, I am interested in another question put by Mr. Cameron. The question of percentage of losses on loans. I can readily understand why you would not like to give that figure, because it would give your competitors information you might not wish them to have. I was wondering if perhaps through Mr. Elderkin we could get an average of all the banks' losses on their loans in a percentage form, because I think that would be very interesting to the committee, say, for a number of years, each year starting last year and going back. On the basis of that percentage the committee would get a much better idea as to whether the banking profits are perhaps unduly large under the system or reasonable, and rates of interest are reasonable, and things of that nature. I was wondering, Mr. Chairman, if we could get that information.

The CHAIRMAN: Mr. Cameron, would you be satisfied with that information? Would that satisfy your purposes? I think we could obtain that information and no objection would be raised. It appears to be as far as we can go, Mr. Cameron.

Mr. ELDERKIN: We can tie it up with the 15-year averages of all figures for all banks. We can give you the 15-year averages going back for several years. Would that be satisfactory?

Mr. CAMERON (*Nanaimo*): Yes, that would be satisfactory.

The CHAIRMAN: The answer is "Yes".

Mr. ELDERKIN: I cannot have it ready for Thursday. It is quite a calculation.

Mr. CAMERON (*Nanaimo*): As long as we can have it while we still have Mr. Atkinson here.

Mr. ELDERKIN: I can have it ready for you after Easter.

The CHAIRMAN: Mr. Atkinson will be visiting us for some time yet.

Mr. CAMERON (*Nanaimo*): As long as it just has a suspended sentence.

Mr. HUNTER: I do not know whether it is possible to get this, but there has been a suggestion that the banks are making an unduly large profit, and it seems that it is disgraceful to make a profit, although I never thought that it was. I am just wondering if it is possible to give some kind of figures indicating the gross profit before taxes, taking everything into account, of all the banks, so that we could have an idea of whether it is a large sum, and over a period of years, so that we could have an average.

Mr. ELDERKIN: Pardon me. Are you referring to the net profit before losses or after losses?

Mr. HUNTER: After losses. No—wait a minute—which would be the more important there, because those losses are contingent, are they not?

Mr. ELDERKIN: You have that figure in exhibit 11, on page 796, showing 15-year average earnings and net profits and losses, actually for each of the 15-year periods ended for the last 10 years.

Mr. HUNTER: The first period 1930-1944 would be, I presume, roughly \$30 million; is that correct?

Mr. ELDERKIN: Yes, before dividends to shareholders and before losses.

Mr. HUNTER: On what capital would that be based?

Mr. ELDERKIN: The capital would be varying through that period, Mr. Hunter.

Mr. HUNTER: How can we assess whether the earnings are adequate or inadequate?

The CHAIRMAN: Gentlemen, would it interest the committee if Mr. Atkinson gave you some comparative American figures? Let us hear them and see if that will help our thinking.

The WITNESS: We have some figures here. As related to total capital, that is to shareholders' equity, the United States member banks with assets of over \$100 million showed an average of net current earnings before taxes and before losses of 16·6 per cent, whereas Canadian banks showed 17·4 per cent. To get down to the net after losses and income taxes, this same group of American banks, all members of the federal reserve system, over \$100 million in size, 8 per cent against the Canadians 6·4 per cent. Based on total assets, these banks in the United States made a net profit of ·49 per cent, almost half of one per cent of their total assets, whereas the Canadian banks made a profit of ·24 per cent, or slightly less than a quarter of one per cent of the total assets. Those figures are all for the year 1952, which is the last figure we have.

The CHAIRMAN: Go ahead, Mr. Hunter. Tell us what you have in mind, and if it is possible to obtain the information it we will.

Mr. HUNTER: I was just thinking that these profits, say, of \$30 million during that period before dividends have not much significance unless we know the capital involved and in fact the total assets involved as a whole on capital investments.

Mr. ELDERKIN: There is a table, exhibit No. 6, which shows the relationship of net profits to shareholders' equity for the last 10 years.

Mr. HUNTER: Oh, yes.

Mr. HELLYER: Do the American banks shown in the sheet have the same system of inside reserves as our banks have?

The WITNESS: I think that was covered in Mr. Towers' evidence.

The CHAIRMAN: But do you know?

The WITNESS: I do not think it is the same system. Quite frankly, I am not thoroughly familiar with them.

Mr. ELDERKIN: Under the American income tax law the banks may choose two methods of writing off losses: they may choose the direct method, or they may choose the so-called reserve method. If they choose the reserve method, they are allowed to create contingency reserves annually at a profit and charge the loss against them.

Mr. QUELCH: Is that general practice?

Mr. ELDERKIN: I think the latter is the more general practice. It started only in 1947, if I remember rightly. The first time they had the option was in 1947. The last time that I inquired, about a year and a half ago, it had become the general practice to use contingency reserves.

Mr. QUELCH: Could you justify that? In that you include specified reserve and inner reserve and published reserve?

Mr. ELDERKIN: Not published reserve. In the case of those banks which use the reserve method in the United States, they actually do it on a similar basis to what we do as far as accounting is concerned. They transfer a certain amount of their profits annually to a contingency reserve, out of which they take their specific reserves.

Mr. APPLEWHAITE: In 1922, if we had had one of these composite statements of the banking industry as a whole, it would have shown that the banking industry was sound and solvent?

Mr. ELDERKIN: I could not answer that question.

Mr. APPLEWHAITE: I assume that your department would have done something about it in 1923. The Home Bank collapsed to the detriment of a great many people.

Mr. ELDERKIN: There was not any department such as mine in 1922.

Mr. APPLEWHAITE: Maybe that is why the thing went.

Mr. ELDERKIN: Nor was there a central bank.

The CHAIRMAN: Mr. Applewhaite's point is well made. He said that a composite statement still would not have told the story.

Mr. APPLEWHAITE: We have 11 banks here. If nine of them are particularly sound and two are hopeless, you could conceal the hopelessness of those two by one over-all set of figures.

Mr. ELDERKIN: I would draw to your attention one provision, that in the case of individual banks the minister must be informed annually as to whether they are or are not financially sound.

Mr. APPLEWHAITE: Mr. Chairman, these particular tables do not prove anything so far as the soundness of any one of our chartered banks is concerned.

The CHAIRMAN: They are much like our statistics on unemployment at the present time. Now, Mr. Hunter.

By Mr. Hunter:

Q. There is one question I would like to ask Mr. Atkinson, but first of all I want to congratulate him for showing a very good position for his bank. But what possible measuring rod is there in determining what the profit of a bank should be? You have made a comparison with foreign banks and American banks; is that the only measuring rod, to compare your position with banks in other countries?—A. I am not quite sure how to answer that question, Mr. Hunter. The judgment of management must enter into it, as to whether or not they feel that their profits are exorbitant or low.

Q. But they are using the same measuring rod which I presume is a mixture of many things and I was wondering how they approached a problem like that?—A. We have here another measuring rod which I may quote you. I must admit that we look very low. The average, 1942 to 1951 in each case, of one group of companies, the pulp and paper companies, based on shareholders' investments represented 12·4 per cent profit.

Q. When you say "shareholders' investment" you mean paid up capital?—A. Yes; as against bank profits in exhibit six. The iron and steel and products companies, 11·8 per cent; textile companies, 11·1 per cent; food products 9·4 per cent; and various others. In no case are they below 10 per cent except in the case of "food products" and you will see what bank profits were in exhibit six.

Q. But those are hardly comparable; they have not the contingent reserve that you have, and all the rest of it.—A. I would say that each of them had a contingent reserve.

Q. Possibly; but what I am interested in is this: what you were saying in answer to my question is that you simply try to make as much money as you can, which I presume you would try, under the Bank Act as it is set up. But the committee has to try to decide whether that set up is correct. I am inclined to think that the profits are not too great. But on the other hand certain members of the committee think they are and I wonder if we could have some measuring rod to conclude whether they are or not.—A. I do not think there is a ready answer to it. I think it should be held in our favour that we increased our rate of interest—and that applies to all banks in the country—because we felt we had been going through a period of rather good profits and we felt impelled to do something about sharing those profits with the public of Canada.

The CHAIRMAN: Mr. Atkinson, I must remind you that it was March 19, 1939 when you paid 1½ per cent and it was not until December 1953 that you raised it to 2 per cent, and that in the meantime you had some pretty good times.

Mr. FOLLWELL: Could it be because they wanted to attract deposits?

The CHAIRMAN: Perhaps there is no answer to that either. Very well, are you through, Mr. Hunter?

Mr. HUNTER: I consider there is no answer to that question. That is all.

The CHAIRMAN: Now, Mr. Henderson.

By Mr. Henderson:

Q. I would like to deal with a different line, namely, personnel. I realize you must have the best intelligence and integrity in order to enjoy the prestige of a banker in a community. And I would like you to explain in principle what your pension scheme is for your personnel when they retire?—A. I shall quote the Royal Bank because that naturally is the one that I know the most about. Our pension is based on 2 per cent of the retiring salary for each year of service, with a total of 36 years. In other words, if a man retires after having 36 or more years of service, he receives as a pension 72 per cent of his

last salary. And if a man dies either in service or as a pensioner then his widow receives for her life time one-half of what he was entitled to. If both parents should die leaving a minor child, the minor child or children share one-half of what the man was entitled to until such time as they become of age.

Q. Now, I do not know whether you have an answer to this question: how many retired employees do the chartered banks in Canada have at the present time? Do you know that figure?—A. I have not the information for the banks and I am not sure that I have it for my own bank.

Q. You would have it for your bank, would you not?—A. I am not sure, but I could easily get it. If I might offer a guess, I would say it in the neighbourhood of 500, speaking in round figures.

Q. Do you know how much money is paid out as pensions to that 500?—A. Pensions paid out in 1953 were \$1,477,700.

The CHAIRMAN: You are speaking of the Royal Bank?

The WITNESS: I am speaking of the Royal Bank.

Mr. Low: Are they on a contributory basis?

The WITNESS: They are on a contributory basis. A man pays 6 per cent of his salary per annum up to a maximum of \$14,000.

Mr. MICHENER: Does the bank equal it?

The WITNESS: The bank has to do a great deal more than equal it; it almost doubles it.

Mr. HENDERSON: Take the case of a manager of, let us say, a local branch; what would his salary be in 1936, for example?

The WITNESS: That is almost impossible to answer in view of the very great disparity in branch managers as to size of the branch and importance of its location.

Mr. HENDERSON: Take for example your branch in Kingston.

The WITNESS: I would not like to be tied to one city because the manager might feel that I had over-stated or under-stated his particular case.

Mr. FLEMING: Well, take a figure.

The WITNESS: I will take a figure of \$8,000, which would not be far from the mark.

By Mr. Henderson:

Q. That would be in 1936?—A. Oh, I would be inclined to think it would be closer to \$5,000 or \$6,000 at that stage.

Q. But today you think it would be about \$8,000. Would that be correct?—A. Oh, I would say so.

Q. And what about the fellow who retired back at that time? What does he have to live on today other than his savings or his pension?—A. Unfortunately, like any other fixed income a pension cannot alter; there is no provision in the pension fund scheme for increasing a pension. Once a man establishes his pension and retires, it remains a fixed amount.

Mr. FLEMING: Just as it does with government pensions.

The CHAIRMAN: I was afraid that someone would mention that.

By Mr. Henderson:

Q. Mr. Atkinson shows a better dividend for his bank. It seems to me that there should be some way to overcome the objection, and that retired bank personnel should be able to live on a proper basis to which they are entitled.—A. It is constantly before us and in some of the cases of lower pensions we have, as a bank, supplemented them. But the pension fund, as such, cannot do so. However, we as a bank have done some supplementing.

Q. Is that true of all the banks, or just of the Royal Bank?—A. That I do not know.

Q. This thing is pretty important. You have set up reserve funds and reserves to take care of losses and contingencies and various things. Have you never considered setting up a reserve in order to raise the pensions of retired personnel in comparison with the cost of living when it is high, and when their pension might at that time be considered as low?

Mr. HUNTER: Do not encourage them.

The WITNESS: As I understand it, such a reserve would not be permitted under the present law.

By Mr. Henderson:

Q. You say it would not be permitted?—A. I believe it would run counter to the Income Tax Act.

Q. You would not have any credit.—A. And the reserve situation of the banks generally.

Q. What do you think that would do to solve the problem, if anything?—A. We rather feel that bank pensions generally are about the most generous in the country, and where there may be some isolated cases of people having difficulty living on their pensions I do not think it is general.

Mr. FLEMING: Would it not be better if the government did something to stop inflation?

Mr. HENDERSON: If a person retires in the position of clerk, what kind of pension would he receive? Let us leave the bank manager out of this.

The WITNESS: There are very few male employees who end up simply as clerks. There are a few. Speaking from memory, I do not think we have a male clerk receiving a salary today of less than \$3,500 a year in which case he would receive a pension of roughly \$2,500, or a little better.

Mr. HENDERSON: What provision is made if one of your employees becomes ill during the course of his employment and is unable to return to work? Have you any insurance which you carry?

The WITNESS: If an employee become ill while in service before retirement age and cannot return to work he then becomes a pensioner. I think all banks are most generous in their treatment of these people. It is very difficult to lay down a hard and fast rule. Each case is dealt with on its merits in the opinion of management but I think in all cases most generously.

Mr. Low: How many years of service are required to qualify an employee for pension?

The WITNESS: minimum of 10 years.

The CHAIRMAN: Gentlemen. I still have two more names on my list, and a great many others are eager to be put on the list. I am afraid, you will have to wait until 3.30 p.m. when Mr. Atkinson will be back.

AFTERNOON SESSION

The CHAIRMAN: Gentlemen, before we proceed with our questioning of Mr. Atkinson as the witness, I want to bring to your attention something which I failed to do this morning, namely, to say that the general managers of all the chartered banks, and the assistant general managers of the Bank of Toronto, of the Provincial Bank, the Bank of Montreal, the Bank of Nova Scotia and the Royal Bank of Canada are here this afternoon. They were here this morning.

Mr. T. H. Atkinson, President Canadian Bankers' Association, recalled.

The CHAIRMAN: Now, Mr. Johnson has the floor.

By Mr. Johnson (Kindersley):

Q. Mr. Atkinson, it states in the annual report of the Farm Improvement Loans Act that farm implements amounted to 90 per cent of the moneys borrowed under the Act in 1953. What was the main security accepted for those loans?—A. The main security would be the implements purchased by the proceeds of the loan.

Q. The implements purchased themselves? But the Act states, under its regulations, that any security under section 88 of the Bank Act is accepted. Is wheat generally accepted as security under this Act?—A. In general, no.

Q. It could be, though?—A. It could be and many loans are made against the security of wheat on the farm.

Q. The thing I am concerned about is— —A. Perhaps I should qualify my answer by saying that mainly in the case of loans against wheat on the farm, the branch banks do not in most instances use the Farm Improvement Loans Act. The security is there outside the Act.

Q. There appears to be a tendency for the weakening of the general farm machinery market. What influence will that have in granting loans under this Act particularly in so far as second-hand equipment is concerned?—A. That involves the question of judgment. I do not know if I can venture to hazard a guess on the percentagewise effect. Obviously the branch managers would be conscious of the markets for second-hand machinery in making loans, but to what extent that would effect their decision in making loans, I am afraid it would be—in fact it would be impossible for me to put a figure on it.

Q. The banks are also concerned about the possibility of farmers being unable to deliver their grain and therefore the necessity for the bankers to make a decision on this second-hand equipment which would have a limited resale value. It would appear to me though that the bankers would be quite reluctant to make a loan under those circumstances?—A. I do not think that has proven to be the case. You are speaking of the purchase of second-hand machinery, not machinery on the farm now.

Q. I beg your pardon.—A. You are speaking of the purchase of second-hand machinery?

Q. The purchase of second-hand machinery under the Act?—A. That is right.

Q. I am concerned about the general decline in creditability of farmers because of circumstances, and whether the Act will meet or prevent that decline which is perhaps a little hypothetical, but it is looking towards the future.—A. Mr. Johnson, anticipating some inquiry as to that particular phase, or at least as to the history of the refusal by the banks generally, which I take it is what you are getting at.

Q. That is right.—A. We communicated with our supervisor of Saskatchewan branches and perhaps it will be of interest to the committee to give you something of his report. We asked him for information which is not available at the head office regarding the refusal of loans.

Q. Yes.—A. He reports that in the months of March, April, and May 1953, which is the last heavy loaning period, that is, the period in which we get the most of our applications for loans, to the extent that applications were referred to him as supervisor—that means applications of \$2,000 and over—they had in all our branches in Saskatchewan only three applications refused;

one was refused because the application did not qualify as it involved re-financing rather than a new purchase. The second was because the operator could not put up the amount of cash which the Act stipulated. The third, the application did not qualify because the borrower was a minor.

Of the small loans which are dealt with by the branch managers and which therefore do not have to be referred beyond the branch level, there were in Saskatchewan in that three month period only 13 refusals, to the total of \$13,026.

That is with respect to the six representative branches which we dealt with in order to get a basis for judgment. In four cases the applicant resided outside the territory and therefore did not qualify. In one case the applicant was unable to raise his margin, and in six cases only the application was refused because the credit risk was poor, and the ability to repay in the mind of the manager concerned was questionable. I think that answers your question so far as 1953 is concerned.

Q. Yes, and thank you. That is what I was getting at.—A. But whether 1954 will be repetitive remains to be seen.

Q. What is the figure that the banks use as a service cost per loan made under the Act? I believe under the Housing Act it is $\frac{3}{4}$ of 1 per cent.

The CHAIRMAN: You mean the housing portion of that Act?

Mr. JOHNSON (*Kindersley*): Yes.

The WITNESS: Just give me a moment.

The CHAIRMAN: Surely, take your time.

The WITNESS: The cost committee of the association report that in 1952 the cost of processing a farm improvement or veterans loan was \$4.56.

The CHAIRMAN: When you say "cost committee" you mean the bankers association, do you not?

The WITNESS: The bankers association, yes.

By Mr. Johnson (Kindersley):

Q. That is \$4.56 per hundred?—A. No. \$4.56 per loan.

Q. Oh, per loan?—A. It really amounts to just the same to handle a \$1,000 loan as it does to handle a \$50 loan.

Q. I do not have a head for figures, but what percentage would that work out to—say on a \$4,000 maximum loan? It would be only a little over one per cent?—A. One-tenth of one per cent!

By Mr. Johnson (Kindersley):

Q. That proves the fact I am not very good at figures! In view of the fact that the service cost is that low and there is an interest charge of 5 per cent given to the banks by the government for the secured loans, what proportion of profit is made under the Farm Improvement Loans Act?—A. That would necessarily have to be a calculation based on the term of the loan and the amount of the loan to decide what the total income from it from which you would have to deduct the cost of the money. I have not made that calculation.

Q. In view of those circumstances then, and in view of the negligible loss that has been sustained since the inception of the Act, do you believe that the bank could operate on a lower interest rate than 5 per cent? The 5 per cent interest rate was set up in 1944 and no one knew just how the Act would operate, but in the 10 years' experience we have seen that the losses are one-fiftieth of one per cent. It would seem to me that it would follow that the interest rate could be reduced. Would you agree with that?—A. I am afraid I could not, Mr. Johnson, no.

The CHAIRMAN: You didn't expect that he would, did you?

The WITNESS: There is a terrific amount of effort along these lines that does not exist in the normal loans. You have periodic repayments, the checking of the security which frequently involves extensive trips by a manager to check the situation, and so on.

Q. That is not included in your service cost?—A. Oh no.

Mr. HUNTER: Nor are losses, I presume?

The WITNESS: No.

By Mr. Johnson (Kindersley):

Q. The important thing is there is no loss you have to guarantee them against, I believe, in giving a man a return for a risk, but in this case there does not seem to be any risk, therefore that portion of the interest rate should be reduced, don't you think? Putting it in the form of a question, do you feel there is a significant risk under this Act?—A. No, I do not feel there is a significant risk under the Act, but it is probably one of the hardest earned revenues we have in our loaning business, in view of the small average amount of the loan and the amount of service necessary over its lifetime, as compared to loaning substantial amounts where you really do not have very much concern from the time you make the loan of a very significant amount until such time as it is repaid.

Mr. JOHNSON (*Kindersley*): I think that is all I have at the moment.

The CHAIRMAN: Mr. Philpott?

By Mr. Philpott:

Q. I want to ask a few questions along a different line. The banks of Canada used to have the reputation of paying very poor wages to their own employees, is that true or not true any more?—A. I agree with you entirely. The reputation was there over a long period. As a matter of fact, I have had personal experience with it! However, I think that is no longer true, Mr. Philpott. Doubtless that will always be a debatable point in the minds of some people, but I feel that we have corrected it to a very major degree.

Q. So that now the rates of pay and the working conditions of the banks are pretty well competitive with those of other businesses in the different localities?—A. I believe so.

Q. There has been one major change over the years in the banks. You have employed a great many more women than men over the years?—A. That is right.

Q. Are the women as efficient as the men?

Mr. JOHNSON (*Kindersley*): That is not a fair question!

The CHAIRMAN: Don't forget you have to go home tonight!

The WITNESS: I think that should be answered "yes" and "no". In many cases for certain types of work I believe them to be more efficient and in other classes of work they do not fit in so well.

By Mr. Philpott:

Q. Do you pay the women the same as you pay the men for the same work—equal pay for equal work as between men and women?—A. That again is difficult to say. I would think that there would be many cases where on similar work the woman receives more than the man, and also the opposite would be true, the difference being that the woman generally is working at a market wage whereas the man has entered the profession as a career and is therefore willing to do different things—not necessarily on a piece work basis—but in order to gain experience.

Q. We often hear that the young people of today are not what their fathers and grandfathers used to be—is that true or not true? To get down

to a specific case, are the employees that you take in the banks today as efficient as they were, we will say, in 1920?—A. I would say all our staffs today are very efficient.

Q. What has been the effect of the greatly increased mechanization that has occurred. That is, you have all sorts of machines which perform a lot of work now that used to be done physically. Has that raised or lowered the personal efficiency of the employees?—A. Well, the greatest effect that has had has been—that is the prime reason for the big percentage of female employees—because that is one place where I have no hesitation in saying the woman is far more efficient than the man.

Q. I asked Mr. Elderkin the other day one small question which seems to me to tie right in with a very real problem which we have in small outlying communities. We have a very real grievance in this country, as brought out this morning, due to the fact that we cannot get enough branch banks in the outlying points because you people do not think they pay, is that right?

The WITNESS: I would think that the criticism was the other way. We are all operating very many branches at a loss in the outlying districts. I would think we are ahead of time rather than behind time in opening branches.

Q. Perhaps I stated it a little carelessly. It is a real problem as to how to supply enough branch banks in these outlying points to serve the country from your point of view, and the point of view of the public?—A. Yes.

Q. Is our Bank Act as it stands too rigid now about the laws we lay down? I won't mention names but let us take a little place that is a borderline case where you would open a branch if you thought it would not operate at a loss. Is one reason for your not doing this because our Bank Act makes you supply too rigid a service for too long a time? In other words, could you not do what doctors and dentists do, and operate the bank for one day a week?—A. We do in many cases. We operate what we call "sub branches" from a parent branch which operate one day a week or more as the demand arises. In many outlying districts the service begins with a sub branch operating one or two days a week and as the demand grows we eventually may feel it is profitable to open a full-time branch.

Q. Is there anything in the Bank Act as it now stands which makes you people supply more things in the way of staff than you should do on a strict business basis?—A. No.

Q. I just wanted to get at that. I have one or two questions along a different line which I wanted to raise. Would you agree with me that while the banking system stands in higher public regard today than ever since I first knew about it, there are certain specific grievances against it? For instance, most people think that the interest charges on cheques from far away are pretty generous or excessive?—A. I would find a grave difficulty in agreeing with that complaint.

Q. What I am trying to get at is that if you take a small cheque for a few dollars from a long distance away in the country the interest charge on it is perhaps 25 cents. Is there anything we can do physically, or is there anything that the Bank Act can do to cut down the actual cost of that transaction and so reduce your interest charges?—A. I do not see how any change in the Act could have any effect upon reducing the work of handling that particular item. We have attempted to meet it in every mechanical way to cut down the effort in clearing cheques but there is a serious effort involved. For instance, if I might just run over what happens to a cheque which is cashed say at a city branch in the city of Vancouver drawn on Montreal. It has to be listed at the branch where it is cashed and sent in to the main Vancouver office, where it is re-sorted and re-listed. It arrives in Montreal, where

it is again re-sorted and re-listed and placed in the clearing if it is drawn on another bank or on the internal clearing if it is drawn on a branch of the bank which encashed it. Then it goes to the home branch, where it has to be re-sorted and posted in the client's account. There are a great many handlings, all of which take time, and with the present-day personnel expenses it is not very difficult to run up 15 cents' worth of time.

Mr. PHILPOTT: That is all I have to ask.

By the Chairman:

Q. Mr. Atkinson, when the 1945 committee sat, there were two particular amendments at the time. I have them in front of me. The first was to reduce the par value of the bank shares from \$100 to \$10. Was that done?—A. Yes, I think in every case.

Q. The second proposal was to reduce the shareholding qualifications of directors to one-half of the regular requirements in the case of not more than a quarter of the directors.—A. That is the case.

Q. Is that true with all the banks?—A. I believe so.

Q. There is one more question specifically. At that time I do not think it was put into the Act, but it was suggested that the banks go beyond the circle in which they ordinarily secure the directors and take some representatives from agriculture, labour and people in small businesses. Was anything done about that by any of the banks. Do you wish to have time to consider the question? It may have come as a surprise to you.—A. No, it is not a surprise. It is quite an old and anticipated question. The answer is not as easy as the question. I am not quite certain what the proposer had in mind. I hardly imagine he had in mind, for instance, any small business such as corner grocer, nor do I think he had in mind, in the case of a farmer, a small holding farmer. Every bank, or at least I would think every bank—certainly speaking for myself, our bank—has several people who know intimately the agricultural situation and who know business generally, but basically in searching for a director I think a bank must have in mind two things: one is the general knowledge which that bank director may bring to the board, and, the second, from a selfish reason, the business which he might influence to the bank. It is hardly to be anticipated that a very small businessman, say a corner grocer or a small farmer, would have much to contribute to the management of the bank in the way of advice, and I say that with no reflection on the small man. So far as I know, to answer your question, Mr. Chairman, there is no one of those two categories on any board. Now, if by "small business" is meant a local business, then there are many representatives on the board. That is local business as compared with across the country business.

Q. I think they mean "small" as against "big".—A. Everything being relative, I am not just certain what is in the mind of the man suggesting it.

Q. The suggestion came from the minister at that time. That was Mr. Ilsley's suggestion, if I recall correctly. We have the list of the directors. Would age have anything to do with the directors?—A. At the moment there is no legal age qualification.

The CHAIRMAN: I will let you take it from there, Mr. Macnaughton.

By Mr. Macnaughton:

Q. That is a good introduction. I would like to ask a few general questions because I recognize that the witness is in a peculiar position. I would like to make the suggestion that the Bank Act should be amended, and I will bring that up in a minute. I want to ask a few general questions of the witness first. These have to do with age, and the age in particular of directors.

The first question I would like to ask is, what is the normal retirement policy in your bank, for example?—A. In our bank, retirement of officers is at 60 years of age.

Q. Officers? What about ordinary employees?—A. We refer to all our male employees as officers, as opposed to executives.

Q. Sixty?—A. Sixty is our retirement age. That is not necessarily common to all banks. I think the majority of banks are rather higher than that.

Q. My second question is, are the other banks following similar retirement policies?—A. I believe some banks have a higher limit than sixty.

Q. Higher than sixty-five?—A. None that I know of.

Q. With respect to your own board of directors is there any bylaw governing retirements on the grounds of age?—A. No.

Q. There is no age limit at all?—A. No.

Q. Do you know if any other banks have similar or different policies?—A. I am afraid that I do not know.

Q. Are you aware that under the English Companies Act directors retire at the age of seventy?—A. I believe that, unless their age is declared and they are re-elected after declaration, they retire at seventy. Yes, there is a clause in the Companies Act that states that you can give notice that you would like to suggest the name of so-and-so whose age is over seventy, and if he is voted in by the shareholders it is all right.

Q. Have you ever heard of this limit of seventy causing any inconvenience or hardship to English directors?—A. I do not remember hearing anything about it, to tell you the truth.

Q. Did I understand you to say that you retired your senior officers of the bank at the age of sixty?—A. It does not necessarily apply to executive officers.

Q. Is there any age limit there?—A. No.

By the Chairman:

Q. What is the difference between a senior officer and an executive officer?—A. An executive officer is, for instance an assistant general manager.

Q. How many are above assistant general manager? Who is there above the assistant general manager except the manager and the president?—A. In our bank there are seven assistant general managers, a general manager and a president, all of whom would be classified as executive officers.

Q. That is ten?—A. Nine.

Mr. MACNAUGHTON: I want to make a short statement, because I want the members of the committee to be aware of the facts, and then I am going to suggest that an amendment to section 21 of the Bank Act be considered.

The CHAIRMAN: You will present an amendment when we reach section 21 I presume this is notice.

Mr. MACNAUGHTON: But I want to lay the facts on the table for consideration, and if the witness can help us, so much the better. It has often been suggested to me that there should be an age limit for directors. There are undoubtedly cases in which it would be beneficial to enforce the retirement of men who do not themselves realize that the time has come to retire and to whom their colleagues would feel it difficult to raise the question. I suppose that, generally speaking, the management of a company is a matter for the officers and directors of that company, but in practice would you not agree, Mr. Atkinson, that it is very difficult to suggest to directors that they should resign even though their continuance on the board may be a source of

embarrassment to the company. It is rather difficult to suggest to an older man that perhaps the time has come, on account of age or other reasons, that he should consider getting off the board. It is rather difficult to suggest that to the board of directors.

Mr. FRASER (*Peterborough*): He might own quite a few shares too.

Mr. MACNAUGHTON: In the United Kingdom, this was considered by the Cohen committee, and a provision was enacted in the Companies Act of 1948 whereby, on reaching the age of seventy, the directors should retire, with the proviso however that their names after notice to the shareholder could be reconsidered and revoted. It seems to me that the Canadian Banking system can certainly be considered a national institution. The banks have no other charter except the charter they get under the Bank Act. This is covered in section 5 which says: "... This Act shall form and be the charter of each of the said banks ...". Section 6 authorizes the continuation of the bank to carry on business in certain circumstances for a shorter period; section 8 gives the particulars of the act of incorporation; section 9 gives the form, in schedule (b); section 16 says that the Treasury Board may grant the certificate of incorporation; and schedule (b) is the form. So, I suppose it follows that the banks are a public service under complete federal supervision. The provisions dealing with directors are found in sections 20 to 32 inclusive. Section 21 outlines the qualifications of the directors. Section 29 states that the list of directors and their attendance shall be sent to the Minister of Finance and also to each shareholder disclosing the attendance of the directors. I would like to point out to the committee that the government itself has already recognized that age may have something to do with and have some relation to efficiency. In the Bank of Canada Act dealing with the central bank, the Governor, Deputy Governor and even directors must retire upon reaching the age of 75. That is section 6 (2) (c) and (e) of the Bank of Canada Act. In the Supreme Court Act, Revised Statutes of Canada chapter 259, section 9, subsection (2) the judges of the Supreme Court of Canada must retire upon reaching the age of 75 years; and in the judges Act, county court and circuit court judges in the city and district of Montreal once they have attained the age of 75 years must be compulsorily retired. I presume that the various pension schemes in banks and companies provide for retirement at age 65. It seems to me that if the government has shown the way in the Bank of Canada Act, the Supreme Court Act, and in the Civil Service if that is policy for the government, it certainly should be considered to be sound policy for the banks to use under their exclusive federal charter. For the banks can be considered as national institutions and depositories of the people's money. As a matter of fact, it seems to me that the trust companies and loan companies generally could afford to consider this question, although I realize they are more often incorporated under provincial statutes and the federal authority has no control. I propose that the following amendment be considered at its proper time and place: namely, that section 21, be amended by adding the following words as subsection 4: "a person is not eligible to be elected or appointed a director after the 1st July, 1959, if he has reached the age of 75 years." Now, I recognize that any amendment is not necessarily perfect, and I am the first to admit that a man at 75 may be in the prime of his wisdom and experience and capacity. But it is also often true that a man at the age of 75 is not in that condition. In order not to cause any immediate hardship I suggest that the 1st of July, 1959, be the date of commencement and this would give five years from the enactment of the present Act which is a reasonable time for any older person. At the same time it seems to me that any person who has reached the age of 75 years if very important to the company or bank could be kept on as an adviser, whether honorary or paid, and the bank trust company or any other

company would not be deprived of his experience. With our country growing as fast as it is we should make provision that people who are in control of our large credit facilities and who are in effect trustees of public moneys should not only be on their toes but should be the best possible people we can get. Opportunities should be opened up for other men to replace some of the older men who have made their contribution and helped to build the country up, and who from the age of 75 on could act as counsellors or advisers. This is the purpose of the amendment.

Mr. CRESTOHL: Is not this the kind of discussion which ought to go on when we are considering the clauses?

Mr. MACNAUGHTON: Yes, but I thought this would give anyone in the room an opportunity to discuss it now.

The CHAIRMAN: I assume there will be no discussion on this when it comes up clause by clause. The discussion has already taken place.

Mr. CRESTOHL: Has Mr. Macnaughton also an amendment to the House of Commons Act that parliamentarians should not go beyond the age of 75 years?

The CHAIRMAN: I assume that you did not receive an answer to the question.

Mr. MACNAUGHTON: I have not heard the answer.

The WITNESS: I am very conscious of the fact that I appear before my co-directors each week as general manager.

Mr. CANNON: I would like to ask one question. That disposition in the English Companies Act that says you cannot have any directors over 70 except under certain circumstances, does that also apply to the English banks?

Mr. MACNAUGHTON: Yes. They come under the English Companies Act.

By Mr. Crestohl:

Q. Mr. Chairman, I was not here this morning. I was sitting in another committee and perhaps some of the questions I have to ask may already have been traversed. If that is so, please draw it to my attention.

I was wondering, Mr. Atkinson, whether you can tell us what type of competition if any there exists between banks? Is there any field in which they compete with each other?—A. I would say that the competition between banks is keener today than I have ever seen it, and possibly keener than any business I can think of.

Q. But apart from the courtesy, efficiency and service which bankers and bank employees give to the public, is there any factual form of competition which exists between them, and if so, could you illustrate?—A. I hope that there is no price cutting competition. If that is what you refer to, because I regard that as being poor competition.

Q. I want to get at that.—A. Basically we compete on the question of service, reputation and general ability to convince people that we are as good or better than our competitors and they do the same to all other members of the fraternity.

Q. That is what I said. But, apart from the courtesy and efficiency of staff and service you have not yet mentioned whether there is any price competition. For example, someone raised the question of exchange. Is the rate of exchange for cashing of cheques uniform in all banks?—A. Oh, no. There is not uniformity in rates of exchange.

Q. That is what I mean.—A. It varies very greatly in different situations and different parts of the country and so on.

Q. With conditions being equal, say a cheque cashed in Montreal from Vancouver—which was illustrated by one of the previous members or by yourself I think—say for \$100, would the rate of exchange be the same in all the banks for cashing that cheque in Montreal from Vancouver?—A. I would think not. Basically there is not a great deal of difference because our rates are based on cost and there would be great uniformity there, but not necessarily the same. For instance, there is a great disparity in the rates quoted for cashing a cheque at a branch point where that particular bank has a branch or has not. If that bank has representation at a point where the cheque is drawn they would be inclined to quote a lower rate than if they had no bank there.

Q. I referred to all conditions being equal. That is why I gave the example of Vancouver and Montreal as the two points. Assuming that the banks all have branches in Vancouver and all have branches in Montreal?—A. There certainly would be a tendency towards uniformity, but I would not expect complete uniformity. It is something I could not say to my own knowledge but I think anybody who uses the services of the banks would have found non-uniformity in some certain circumstances.

Q. Let us go to the next possibility for uniformity or non-uniformity. This new charge of 10 per cent per cheque on savings accounts, is that uniform?—A. Yes.

Q. Was that arrived at amongst a conference between bankers?—A. It was at a conference where after considerable discussion it was decided that the interest rate should be raised which resulted in the payment to the public in round figures of \$20 million a year more in interest. Following that discussion which, as I say, was quite a long discussion and not agreed to by all banks but had to be ultimately because that is one place where you must have uniformity, it was then proposed that something should be done to put service charges on a uniform basis and to get closer to the actual cost of these services. That was agreed on by all banks and is uniform.

Q. Would that also apply to the monthly charge for operating an account?—A. That is right.

Q. There is uniformity there also arrived at by conference?—A. There is uniformity in operating charges, yes.

Q. You have already told us there is also that same uniformity in the interest you will pay on savings accounts?—A. That is right.

Q. I am wondering how or whether that clashes with our Combines Investigation Act?—A. I believe services are not covered by the Act, but in any event the result would be the same in a matter of hours or days because quite obviously charges of that nature must become uniform or the bank which is charging a higher rate will obviously lose business, so, like selling peas, you immediately meet your competitor's price.

Q. I do not know. That is why I started out asking you whether there was any competitive factor in banking. I was wondering whether the banks enjoy this—

The CHAIRMAN: Immunity. Was that the word you are thinking of?

Mr. CRESTOHL: No. This privilege of being able to meet together and bring out a price and price maintenance and yet not come into conflict with the combines investigation.

The WITNESS: I should make it clear that the agreement on service charges is only a minimum which is agreed on. If I said they were completely uniform I was wrong. The minimums are uniform but not necessarily the charges.

The CHAIRMAN: May I tell you, Mr. Atkinson, that it is not the charges that matter under the Combines Act, but the agreement.

By Mr. Crestohl:

Q. There is a question which might relieve the situation in my way of thinking. Interest rates on loans, are those uniform in all banks?—A. No. They vary from $4\frac{1}{2}$ to 6 per cent.

Q. That is what I knew and I wanted to clarify that as being on the other side of the ledger in my thinking. One man can go into a bank and make a loan and be charged $4\frac{1}{2}$ per cent, and another man in the same bank for the same type of loan may possibly have to pay 5 per cent?—A. That is right.

Mr. CRESTOHL: That is all, Mr. Chairman.

The CHAIRMAN: Mr. Fraser.

Mr. FRASER (*Peterborough*): Mr. Chairman, the last speaker asked the question in regard to—I was going to say monopoly, but I wondered whether that was the word.

The CHAIRMAN: That is not the right word.

Mr. CRESTOHL: I avoided it.

By Mr. Fraser (Peterborough):

Q. I avoided it too. When for instance a bank is 10 miles from the clearing house where there is another office of the bank is an exchange charge made on cheques in all cases?—A. Each clearing district is defined. For instance, the Toronto clearing district is not necessarily confined to the city of Toronto. The Montreal clearing district is not necessarily confined to the city of Montreal. It is defined by the clearing house as to the radius and the branches in that radius which are considered part of the clearing house area.

Q. What is the area?—A. It varies in different districts. The clearing house makes its decision which branches in that area will be considered part of the clearing house area.

Q. Well, would it be a 10 mile radius or more than that, or could you give us an idea.—A. It is not necessarily a mileage radius. It is more particularly the time it takes to get into the clearing house rather than the distance.

Q. The reason I asked that is I know one section where they used to charge an exchange 9 miles from the clearing house, and now they do not.—A. As facilities improve, changes are made in the clearing house area and they are brought into the free clearing house area.

Q. In regard to the charges on saving account cheques, did the 5 day week have anything to do with the extra cost there?—A. No.

Q. Are there some branches still operating 9 to 11 on Saturday morning, and are they going to continue to so operate?—A. I suppose there will be a gradual tendency towards more and more closing. The policy which has been followed by the banks with respect to a 5 day week has been this: in every case it has originated at the local level by a recommendation that they be permitted to close on Saturdays, and in every case give a late service on Friday evenings. There has been no policy dictated by the head office and we have insisted it will only be done where the local people recommend it and support their recommendations with information that it was common in that area; that the difficulty of getting staff because of Saturday morning work made it essential that we meet competition for staff by giving the Saturday mornings off, and so on, and particularly that the local Board of Trade or Chamber of Commerce and that type of thing had been interviewed and were in sympathy with the recommendations that the banks should be closed on Saturday, and in many cases there was consultation with customers of the branch. These applications continue to come in from local branches. They are looked at by the head offices and if the case appears to be strong enough

permission is granted to close on Saturday and give the late Friday evening service. That tendency continues as the five day week gets more general, and I think maybe ultimately all branches will be closed on Saturday.

Q. If there were two different banks in a small village and they were now open 9 to 11 you would not close your bank unless you had an agreement?—A. Oh, no.

Q. You would work that out between the two of you?—A. That is right.

Q. Do you think that in the United States where the competition is really greater than what it is here in Canada, at least I feel it is, and where they do more advertising—they definitely do more advertising I think than banks here—do you think that in the United States they get more business with that advertising, by showing their customers just what they can give them, than you do here?—A. I do not think that I could make that comparison between their advertising activities and Canadian bank advertising activities. I can only say that when I look at our total advertising bill I shudder because it is so high.

The CHAIRMAN: I see you advertise rewards to catch certain people.

Mr. FRASER (*Peterborough*): What is your advertising bill for a year?

The CHAIRMAN: If we open that matter, somebody will want to know what the loss is for the year.

Mr. NOSEWORTHY: You had better not let us find out too much about the banks.

Mr. FRASER (*Peterborough*): Have the banks any agreement with the government about notifying the government on the cashing or depositing of bond coupons?

The WITNESS: Do you mean Dominion of Canada coupons?

The CHAIRMAN: Any coupons.

By Mr. Fraser (Peterborough):

Q. Yes, or any other type of coupons.—A. Are you speaking for income tax purposes?

Q. Yes.—A. The ownership certificate has to be filed covering all coupons cashed, that is, bearer coupons cashed over a certain amount.

Q. What is that amount?—A. It is very small. I was going to say \$3. Someone mentions \$1-3/4.

Q. Anything over \$3?—A. That is right. That is another service that we make free of charge.

Q. This morning you mentioned the fact that the banks agreed to increase the interest rate from 1½ per cent to 2 per cent. Mr. Crestohl also brought this out. What other things do the banks come to agreement on? That is on the interest rate. You have mentioned your exchange rate minima, that there is an agreement there.—A. Service charges, not exchange rates.

Q. Is there any agreement on exchange?—A. From time to time there has been some agreement on exchange rate minima. It would be impossible to define, I think, just to what extent that exists.

Q. Well, now, you mentioned also this morning loans of \$700 and \$400. Your rates would be the same whether it was \$100 or \$1,000.—A. Loaning rates?

Q. Yes?—A. No, that is where the risk comes in, and the amount has really no bearing on the quality of the risk.

Q. No bearing whatsoever?—A. I presume on the ability to pay, but interest rates basically are adjusted on the judgment of the percentage of risk involved.

Q. Mr. Crestohl also brought up the question of rates. You may charge to one man 4½ per cent and to another 5½ per cent for the same amount.—A. That is based on the type of loan and basically the assessment of risk involved.

Q. It depends on what you know about the man who wants to borrow the money?—A. That all comes into assessing the risk.

The CHAIRMAN: Mr. Atkinson, in view of the questions that have been asked you, I would like to ask you this question. This is merely notice. You may answer it on Thursday, because you will need some legal advice. My question is this: Without questioning your right to make service or other charges, or the reasonableness of those charges, and assuming the cost of doing business does not vary between banks, how can banks unilaterally make a contract where they sit down and agree beforehand and where it is obvious that there is no independent action. How do the banks differ from the rubber companies or the paper companies which are now on trial for just such action in contravention of the Combines Act? Your counsel is here. He can consider this and he can let us have some answer on Thursday.

By Mr. Monteith:

Q. May I ask a question. Is it not true, Mr. Atkinson, that, say, a branch manager of your bank might make a deal with an accountant that if he has a certain minimum balance say, \$6,000, he gets his current checking services free?—A. Of course.

Q. And the manager of some other bank might say, "Well, I will do it for a minimum balance of \$5,000 instead of \$6,000".—A. There would be great variation.

Q. In other words, there is straight competition there?—A. Oh, yes.

Mr. CAMERON: (Nanaimo): I do not suppose Mr. Atkinson has been able to get that table of the bond prices?

The WITNESS: I have it here. We did not have it in time to get it typed.

The CHAIRMAN: It is a very large table. Can you ask for specific questions?

The WITNESS: I could give examples.

By Mr. Cameron (Nanaimo):

Q. Could you give us an average figure for, say, 1951, 1952 and 1953?—

A. I would like to give this example. The Dominion of Canada $3\frac{1}{2}$ bond, maturing in 1956, in 1947 sold at a high of $106\frac{1}{4}$. In 1953 it sold at a low of 99.30, a variation of 6.70 points. A slightly later bond, maturing in 1959, in 1947 sold at a high of 105, and in 1953 sold at a low of 96, a variation of 9 points. Those are typical. I can give you other examples if you wish.

Q. That is fine. Now, I wonder, Mr. Atkinson, if you could tell us what is the usual price range approximately of government bonds at which the bank would purchase government bonds?—A. I should say that this 3 per cent of 1956 is a very common holding of all banks, and if purchased in 1947 at $106\frac{1}{4}$, I think the point you are getting at is this, that in 1952 they had to be valued at 98.65 for the purposes of the bank statement, which would involve something over $7\frac{1}{2}$ points of \$75 a thousand. That would have had to be provided in our contingency account prior to the closing of our books in 1952.

Q. If you had bought it at 106?—A. Yes.

Q. Would you have been likely to have bought it at 106?—A. Without looking in our books, I am afraid that we bought quite a few at that rate or close to it.

Mr. QUELCH: Have you ever refused to buy from a customer?

The WITNESS: No, we have never refused to buy a bond from a customer, but the ones that go into our investment account would not necessarily be bonds that we bought from a client, because very frequently we buy bonds from a client and immediately sell them in the market.

By Mr. Cameron (Nanaimo):

Q. Mr. Atkinson, you would on the other hand, of course, buy quite a number of bonds at less than par?—A. At less than par? They could not have been bought at less than par prior to 1951, because the low point, from 1946 to 1951 was always above par.

Q. They were always above par then?—A. Yes.

Q. But you had bought at below par?—A. Yes, since then.

Q. There would be a tendency to balance the purchases above par with purchases below par?—A. Purchases and sales are going on all the time.

Q. And they would, in the main, fairly well balance out?—A. Over a long period of years I would say the likelihood is that they would—not necessarily any one issue—but bank holdings over a long period of time would average out at some reasonable level, I would expect.

Q. Now, you referred this morning to exhibit number 11 which shows the aggregate losses for each year from 1944 to 1953 and I notice that in 1953 it was \$7.8 million. Those losses would take into account losses on loans and losses by depreciation of market value on holdings, would they?—A. That figure would not make the provision which I mentioned here for a drop in market value of securities and would only come into that figure if they were sold and the losses were consummated in some particular year.

The WITNESS: Yes, that is the provision for losses. That is an average and is not necessarily any provision made in any one specific year.

By Mr. Cameron (Nanaimo):

Q. I cannot understand that because it says quite clearly at the head of this chart: "Statement of Earnings, Expenses and other Information of the Chartered Banks for the Fiscal Years of the Banks," and says here number 15 quite clearly?—A. The average annual amount.

Q. That is the average throughout the year?—A. No, 15 years.

The CHAIRMAN: Mr. Cameron, are you referring to exhibit number 11?

Mr. CAMERON (Nanaimo): Yes.

The CHAIRMAN: Then it is the average for 15 years.

By Mr. Cameron (Nanaimo):

Q. Would you say, Mr. Atkinson, that since 1944, since the last annual revision, that the actual losses of the banks would have exceeded that average of \$7.8 million?—A. Provision in one or more years would have greatly exceeded the average loss of 15 years.

Q. Would you say that again?—A. Provision in one particular year would have exceeded the average of 15 years.

The CHAIRMAN: You have me baffled!

Mr. CAMERON (Nanaimo): I don't understand that either.

The WITNESS: When you average there must be some above and some below.

The CHAIRMAN: Oh yes, quite. I understand what you mean.

The WITNESS: Otherwise, your average would not be there.

Mr. CAMERON (Nanaimo): Yes, I see. However, I do not see that we can get much further, Mr. Chairman, until I get some of the information I asked for which is the question of the average losses of banks. Otherwise I cannot see how we can assess the necessity for the reserves. I can quite understand that Mr. Atkinson is very reluctant to reveal the actual losses of his own particular bank, but I notice that if we take Mr. Towers' suggestion—three-

quarters of one per cent—then on that basis last year the Royal Bank would have had losses of \$7,400,000 on their loans. Now, would Mr. Atkinson suggest that that was quite out of line with the actual facts?

The CHAIRMAN: The front door is closed and you are trying the back door! I am a little bit troubled about your line of questioning, and with the difficulties we are encountering in obtaining the specific information. What information should we have before this committee in order to give the committee an opportunity to fully examine the bill, which is an application for a charter?

Mr. NOSEWORTHY: I would say, Mr. Chairman—

Mr. CAMERON (*Nanaimo*): We are being asked as a committee to O.K. the provisions which permit, in the first place, quite massive reserves and open reserves—and I will come to that again in a moment—plus an undisclosed volume of hidden reserves on the grounds that these reserves are necessary to cover any possible losses either in the loan business or in the depreciation of the value of the banks' portfolios. I cannot for the life of me see how we can arrive at any conclusion as to whether or not this is justified unless we have some information with regard to the losses?

The CHAIRMAN: Suppose Mr. Atkinson did place on the table the dollar or percentage in losses of all the banks—you could not ask one bank to do this without the others—how much further would you be ahead? What information would then be available that would be useful to you that you do not have now? Where do we go from there.

Mr. CAMERON (*Nanaimo*): We go from there to discuss the actual losses over a period of years, and the actual reserves that are on hand to meet those losses and here is where I would like to come to the other point. I presume Mr. Atkinson, for the Canadian Bankers' Association, is consulting with regard to the banking legislation. It would be the natural thing to do. You are not confronted with a bill. You, as experts in the banking field, are brought into consultation with the law officers of the Crown, I presume, in drafting new banking legislation?

The WITNESS: Oh, yes, of course.

By Mr. Cameron (Nanaimo):

Q. And you were, I presume, brought into consultation in 1944?—A. I was not there myself, but I presume so.

Q. Your predecessor would be, yes. Now, under section 58 of the Bank Act there is a provision with regard to the payment of dividends which can only be paid when the bank has a rest or reserve fund equal to at least 30 per cent of its paid up capital after providing all the appropriations necessary for ascertained and estimated losses. Now I presume, Mr. Atkinson, that the intent of that section was to prevent the banks from distributing profits which might place them in a bad position with regard to possible losses; and that it ought to have reserves set aside before is distributed profits to the shareholders. That was the purpose of it, was it not?—A. I presume so.

Q. Is the bankers association satisfied that 30 per cent of its paid up capital is a reasonable amount?—A. I am not sure what year that percentage went into the Act, but we have no quarrel with it at the moment.

Q. You have no quarrel with it at the moment and you consider that to be an adequate amount?—A. I think so, yes.

Q. Would you not consider that a reserve nearly seven times as large as the legal requirement would be a more adequate amount to cover all possible losses? I think that necessarily follows: On what would you base

a justification for further reserves which are not disclosed, because I point out to you that the legal requirement for these open reserves with regard to this distribution of profits is 30 per cent, and your annual statement reveals 200 per cent of the paid up capital?—A. I think there are several answers to that question. The main one would be that we have not got the gift of looking ahead to see what happens to us, to know what requirements there might be for such a situation. You only have to go back to 1932 to discover that very substantial reserves were needed, and history shows that it has been through the ages considered wise for banks to have reserves for strength in order that the public may be properly protected.

Q. Let us go back to 1932 since you mentioned that year. Was it considered necessary in that year that more than 30 per cent, of an amount equal to more than 30 per cent of the paid up capital was required? Was that the experience of that period?—A. I can only answer by saying that we and some of the other banks had to draw on our outside reserves because our inside reserves were practically exhausted.

Q. By "outside reserves" you mean contingency reserves?—A. No, published reserves.

Q. Published reserves?—A. Yes, published reserves, the kind which have the tax paid on them.

Q. But in 1934 when the Bank Act was revised, did the Bankers' Association suggest that this particular section should be amended to increase the requirements?—A. I do not think that that particular section has any great bearing on what reserves are required.

Q. No, but it is one of the requirements of the Act and presumably it can only be for that reason; and while it does refer specifically to dividends, it must have been inserted with the idea that the bank directors should not distribute profits until all their other liabilities are fully covered.—A. It is the minimum which is written in, and below which no distribution of profits can take place. But it has nothing to do in my judgment with what is required as reserves for the future.

The CHAIRMAN: That is the evidence of the Inspector-General as well, Mr. Cameron.

Mr. CAMERON (*Nanaimo*): Then I must confess that this provision seems to be rather pointless in this particular section.

The CHAIRMAN: Just read it, will you?

By Mr. Cameron (Nanaimo):

58. (3) No division of profits, either by way of dividends or bonus, or both combined, or in any other way, exceeding the rate of eight per cent per annum, shall be made by the bank, unless, after making the same, the bank has a rest or reserve fund, equal to at least thirty per cent of its paid up capital after providing all the appropriations necessary for ascertained and estimated losses.

Q. I cannot for the life of me see how that can be interpreted as being anything but a legal provision by those who drafted the Act and who considered it was necessary to protect the banks' depositors against losses that might have been incurred by the distribution of profits, or protecting them against the financial position which might have resulted by a distribution of profits.—A. That is the minimum beyond which the legislators of the day required that the banks could not go. But it seems to me that there is quite a difference between an absolute minimum and what may be regarded as a proper reserve.

Q. But if we are legislating for the protection of depositors, surely that

minimum should be considered a safe minimum.—A. If that minimum is reached in a period of excellent prosperity, I think it would be taking great risks in a period of adversity.

Q. But we do not legislate for any particular period.

The CHAIRMAN: No, but they plan for a period.

Mr. CAMERON (*Nanaimo*): The point I am after is this: Is this 30 per cent which is provided by this legislation to be considered as adequate protection?

The CHAIRMAN: Let us hear from Mr. Elderkin.

Mr. ELDERKIN: I must ask you to read the last few words of the subsection, Mr. Cameron.

By Mr. Cameron (Nanaimo):

"... after providing all the appropriations necessary for ascertained and estimated losses."

Mr. ELDERKIN: As we have said before that is what inner reserves are.

Mr. CAMERON (*Nanaimo*): I am not speaking of inner reserves.

Mr. ELDERKIN: Outer reserves have many of those provisions.

Mr. JOHNSTON (*Bow River*): Where is that?

Mr. ELDERKIN: It is in your clause 70 subclause (3).

Mr. CAMERON (*Nanaimo*): This is a provision for outer reserves, after these other appropriations have been made and put into the contingency reserves. I am suggesting that we ought to have some explanation for the necessity of contingency reserves when the actual published reserves of this one particular bank are nearly seven times the amount set forth in the bank.

Mr. MICHENER: Might I ask a question on that point?

The CHAIRMAN: Please wait. Mr. Cameron has another question.

Mr. CAMERON (*Nanaimo*): I have a question here.

The WITNESS: May I suggest that that question had much better be directed to the Inspector-General than to me.

Mr. ELDERKIN: In the first place we have to take the section with respect to limitation of dividends, that they should not go over 8 per cent. That was all it was. It said that the rate of dividends should not go over 8 per cent until the reserve requirements were satisfied. Of course, they could have declared dividends under 8 per cent without satisfying the reserve requirements. However, it is there. When that subsection came into force I cannot just tell you from memory, but I know it goes back many, many years. I cannot guess at this stage when it was. I can easily find out for you, but I have not got the information here.

The CHAIRMAN: Suppose you give him an opportunity to "bone up" on that one.

By Mr. Cameron (Nanaimo):

Q. I have one more question for Mr. Atkinson: I noticed that there was a transfer of \$12 million from your contingency reserves in 1953 to your open reserves. I wonder if you could tell us what the purpose of that was?—A. In addition to the contingency reserves which we have been talking about here and which, as the inspector-general has pointed out, are permitted under the supervision of the Minister of Finance we—and presumably the other banks—accumulate an additional reserve which we call our tax paid reserve which is completely under our own authority because we have paid the re-

quisite amount of tax on it. We felt that for various reasons we would prefer to have it shown in our outside reserves rather than continued on the inside, so we made that transfer.

Q. Then this does imply that your contingency reserves contain \$12 million more than was considered necessary by the Minister of Finance?—A. No. The Minister of Finance has supervision over our contingency reserve which have not attracted tax. But here we have paid the tax and put it into our reserve account, so it is under our management.

Q. But that does not answer my question.

The CHAIRMAN: Will you please give him the question again.

By Mr. Cameron (Nanaimo):

Q. Does the fact that you considered it necessary or desirable to transfer this from your contingency or hidden reserve to open reserve imply that you had in your contingency reserve \$12 million more than the Minister of Finance considered necessary?—A. No. That is a separate thing entirely.

Q. I cannot understand how it can be separate?

The CHAIRMAN: There is a certain amount of money in the contingency reserve which the Minister of Finance says should be there to give ample protection to the depositors entitled to protection. It is untaxed. You take \$12 million out of that fund and pay the tax and use it for your own purpose. Mr. Cameron asks if the minister agreed it should be in the contingency reserve, does not the fact that you have taken it out of the contingency reserve weaken that reserve?—A. I am afraid I have not made it too clear. The discussions the other day in relation to contingency reserves referred to the non-taxed contingency reserves. First there are specific things which could be seen, and the other reserve which is governed by the Minister of Finance for potential losses which cannot be seen. Over a period of years we have had from time to time placed in another account, which does not come under the supervision of the Minister of Finance, certain tax paid profits which for one reason or another were not transferred to the outside reserve account at that time, but over a long period of years these tax paid moneys have been mounting up in the special contingency reserve which is not under the supervision of the Minister of Finance because all taxes have been paid on it and we felt that it was no longer required and transferred it to the outside reserve. That is as plain as I can make it.

By Mr. Cameron (Nanaimo):

Q. That brings up another question. If I understood Mr. Atkinson right, he said there were two contingency reserves. One for specific losses which could be anticipated, and the other for unforeseeable contingencies?—A. Yes.

Q. What is the purpose of the \$70 million reserve fund that is published in your statement?—A. It is our shareholders funds which, within the limitation of the Act, could be distributed to shareholders down through the years, but management and shareholders agreed that they preferred to have it in the bank for operating purposes to give the bank more strength.

Q. Would you suggest that your specific and unforeseeable losses would be of such size that that could not be safely handled by this \$70 million open reserve?—A. I cannot see into the future that far.

Q. No, but you can see into the past. Has there been any occasion in the last 10 years when it has been necessary for you to meet losses out of your open reserve fund, or either of your contingency reserve funds?—A. In 1932 or 1933, I am not sure of the year, we had to transfer from the outside reserve several million dollars to strengthen up the inside of the bank.

Q. In 1932?—A. I am not certain of the year. In the bad thirties.

Q. Mr. Atkinson, I notice in 1953 after having made all your provisions for your two contingency reserves that you still had net profits of \$8,635,000. Now, would those profits in themselves not have been amply sufficient to have covered any foreseeable loss in that year?—A. I am afraid we are around in full circle again.

The CHAIRMAN: Suppose we leave that at this moment.

By Mr. Michener:

Q. I have been trying to follow the anxiety Mr. Cameron expresses, and it seems to me to come down to the question of whether there are any harmful effects in maintaining hidden reserves, amounts of which are not made public. It would seem that the more reserves the better it is for the public unless it has some harmful consequences. First, whether the maintenance of these large reserves deprives the treasury of any taxes, and whether there is any increase in the expenses of doing business by means of hidden reserves, and thirdly whether they have any effect on the amount of dividends the bank can lawfully pay. If the maintenance of these reserves does not have any harmful effect in any of those three headings, it certainly is not any concern of ours to know what they are, and it is a satisfaction to know they are there. Would you deal with the three briefly? First of all, as to whether there is any ultimate loss of taxes?—A. The minister decides what is a reasonable reserve to carry in our contingency account, and the minute that point is reached any additional amount, either by way of too much reserve or of earnings, will attract a tax and we pay it.

Q. So that the only effect is there is a deferment of tax on the actual amount in the authorized reserve at the present time.—A. A deferment only yes.

Q. Does it affect the banks cost of doing business?—A. Not at all. The reserve adds to our working funds and could not possibly increase operating costs.

Q. Then the third possibility is that it might permit the payment of a larger return to the shareholders than otherwise would be paid. Personally I do not see how it could.—A. If a bank were imprudent enough not to have those reserves and pay tax on them, the residual would be available for distribution, but I think it would be a very imprudent management would take that course.

Q. Does that alter the amounts that may be paid in dividends?—A. Oh, no. (Mr. Weaver assumed the chair.)

The ACTING CHAIRMAN (Mr. Weaver): Gentlemen, Mr. Noseworthy is the only member on the list at the moment.

Mr. NOSEWORTHY: I will wait until we have further information.

By Mr. Low:

Q. It is too bad we have not been able to exhaust one topic at a time. I do not like to take the witness back to things that have been covered but there are a few questions which it does not appear to me to have been answered fully with respect to retirement policy. I think Mr. Atkinson said that as a general rule managers of banks have been retired at 60?—A. Of our bank.

Q. Is that a rigid policy with you, or are there some exceptions?—A. Reasonably rigid. Not necessarily on a birthday, but within a reasonable period afterwards. For instance, we do not as a policy ask people in remote points to retire during the winter months when a move would be uncomfortable.

Q. It would be something of a matter of a few months?—A. Yes.

Q. Does the Royal Bank of Canada assist the employees to obtain group hospital and medical insurance?—A. Oh, yes, we have a very comprehensive group policy and a very comprehensive sickness and accident policy.

Q. Up to what age does that cover?—A. In our group policy a man is insured for two years' salary, generally speaking, which carries on to the age of sixty-five. At the age of sixty-five it continues for one year's salary. He has the option, if he wishes, to carry the other year's salary without medical examination at his own expense.

Q. Then it is cut off at sixty-five?—A. So far as the bank is concerned, one year's salary is cut off at sixty-five; the other continues till death.

Q. Has that been your policy for a number of years?—A. That particular extension of the policy to sixty-five for one year's salary only came in, in our bank, within the last 12 months.

Q. Prior to that?—A. Prior to that it stopped at sixty-five unless the man wished to carry it on on his own account at whatever rate the insurance company quoted for that age.

Q. Those employees who had retired, let us say, previous to 12 months ago would have found themselves facing a rather peremptory termination?—A. Yes, it was not possible to make it retroactive, obviously, because of the insurance company's requirements.

Q. What was the average retirement allowance of the average branch manager in the Royal Bank of Canada prior to World War II? Have you any figures on that, Mr. Atkinson?—A. Our policies have changed quite frequently, and I am afraid I would have to look that up. I would not want to specify it from memory.

Q. Perhaps that figure could be obtained for me?—A. I would be glad to get the information.

Q. What I was leading up to is quite obvious. Those retirement schemes of practically all the banks, as with all corporations have been improved immeasurably since World War II, and corporations like the Canadian National Railways have been faced with applications or demands or requests on the part of previously retired employees for some relief from the situation in which they were placed by the fact that they retired at a certain rate of allowance and then the purchasing power of that rate has decreased by about half.—A. That is unfortunately true.

Q. Have you had any applications by retired employees for consideration of increase in their retirement allowances?—A. It is not unusual for me to get a letter asking me to see if something could be done.

Q. Is there an organization of your retired servants?—A. Not to my knowledge.

Q. I just wondered if there had been application on the part of, say, a large group?—A. No.

Q. As would be typical of perhaps other corporations?—A. No, none at all.

Q. That brings me to another thing. The income tax officials, I am told, have access to the accounts of the customers of the banks for income tax purposes. That is correct, is it not, in all the banks?—A. No, there is a process of law by which they can get information on specific accounts, but they have not general access to the books of the banks.

Q. Just what is the process, Mr. Atkinson, by which an income tax official can have access to any account?—A. We are notified in a form under the Act that a certain account is under investigation and a specific inspector will visit the branch concerned, and that is our authority for allowing them access to that specific account.

Q. When the official obtains the right to examine a certain account, he would be accompanied by one of your employees, who would show him the account, is that right?—A. The normal practice is for him to ask for specific information regarding the account, which is furnished him by our manager.

Q. He would not see the actual figures on the ledger sheet, and that sort of thing?—A. I am afraid that I do not know the practical working of an inspector going into a bank. He has to specify what information is required. I cannot from memory say whether that has ever involved the production of the ledger sheet or not. That I can find out for you.

Q. One of the reasons I am asking this question is this— —A. I am told that he can. The form can specify the production of the ledger account.

Q. I see. In the case that the form does specify that, is it the practice of the income tax officials to microfilm the sheet?—A. They certainly cannot take them out of the bank, and I have never heard of them microfilming.

Q. I was told that, and I think it would be interesting and important to this whole committee to trace down the truth of it. I was told by some pretty reliable people that on the 24th day of March at the Canadian Bank of Commerce in North Bay officials were actually microfilming accounts, presumably to take them away. Now, it would be interesting to the Canadian people to determine whether that is actually a practice.—A. I shall find out and have the information for you on Thursday, so far as we are concerned, and the general manager of the Canadian Bank of Commerce is here and I have no doubt that he will find out about the specific information you mentioned.

Q. You understand, Mr. Chairman, that I am making no accusation in the case. I am merely asking for information, because this is the only way we have to get information, and I would like to be able to show that that report is not true; but if it is true then I think it would be a rather serious thing. Now, sir, I will be interested in following up some of the questions that were asked by Mr. Cameron. I would like to examine for just a minute, Mr. Atkinson, the whole question of securities operations. As I have listened to your evidence, I think I am correct in assuming that the banks do carry on certain market operations almost daily, that is security market operations?—A. That is right.

Q. Now, I wonder if you mind, Mr. Atkinson, giving me the various reasons why the banks do carry on these securities operations on the market. It is easy to understand why the banks would obtain and hold government securities. That, of course, is the basis of all of your credit expansion and operation, but why the banks engage in day-to-day buying and selling of securities, I do not think is generally understood. I, for one, would like to have you put on the record the various reasons why you enter into such operations.—A. Well, Mr. Low, the investment account of a bank, as you say, you don't want information on that?

Q. No.—A. That is to a degree a separate compartment. Practically all banks, and possibly all banks, have what is commonly called their trading department in securities, which really performs two functions. So far as securities are concerned, and I had better speak entirely for the Royal Bank because then I am on sound ground, with our far-flung branch system many people ask us as agent to buy stocks for them, or to sell stocks for them, and those are handled on an agency and commission basis. That is also true in the case of certain bonds. We receive orders through our branches to buy certain bonds for clients and to sell certain bonds for clients. Additionally, and in volume by far the larger amount, is an outgrowth of necessity for jobbers in the government bond market. Many of the dealers who have a lot of outlets for bonds and who are trading with their clients all the time have not the necessary capital to carry large stocks of all the various issues so our bank acts as a jobber. We have a trading department which carries a position in the various issues of government bonds, and to a degree in provincial government and municipal bonds, both for the supply of our own clients' requirements and for the supply of dealer requirements. The dealer may buy a block of bonds from

us and place them with one of his clients so the bulk of the trading is a jobber function to maintain a better market for Dominion of Canada bonds and to a degree to make a profit.

Q. Now, to go back to the investment account, the securities that you buy into the investment account are held pretty well until maturity, are they?—A. Pretty well, although I would like to make it clear that the investment account is and must be rather elastic. Our loans are determined by the demand from clients. The balance of the banks working funds are invested so if our loans move up, unless our deposits rise accordingly our investments must come down. That is, to take care of a heavy loaning demand, there are times when we must let our investments run down by a like amount in order to obtain the funds to loan. If loans are declining, the tendency is for our investment account to expand so there is some movement in it. Generally speaking, however, the larger holdings are likely to be at least of a semi-permanent nature. In other words, in a billion dollar investment account the movement would be a minor fraction and there would be a very hard core of holdings which would stay fairly constant over a long period of time.

Q. As that portion of the investment fund, plus the funds used in the trading department are used in buying and selling on the market for the purpose of making a profit, you sometimes run into the opposite?—A. Oh, yes, that is not unusual.

Q. In other words then, any loss you may incur in your trading operations either for your investment account or the jobbing function you perform, would be chargeable and would be made up out of the inner reserve?—A. Well, basically and ultimately if there was such a thing that would be possible, but basically it would affect our annual profits rather than our inner reserves.

Q. What I was trying to get at was something in addition to what Mr. Michener brought up. He said he thought there were only three possible concerns you would have about the inner reserves. I think there is a fourth one. Just how far do the people of Canada sacrifice the taxes on bank profits in order to make up losses that might be incurred in a sort of "speculative" securities operation? That is what I am getting at? I would just like to pursue that a little bit further?—A. It is a necessary part of the business of banking to invest our funds.

Q. Right.—A. Perhaps I misled you a moment ago in saying they do not affect contingency reserves. If the market value of our holdings of securities falls off drastically, as it did from 1947 until 1952, and the market loss on those is made up, or at least leans on the contingency reserves, there would be a transfer from general reserves into specific contingency reserves covering that market fall. That is not an ultimate loss, because, if we hold those assets until maturity the government will certainly pay them, but there is a requirement in contingency reserves that we must take care of the drop from book to market value.

I could hardly agree with your point that the public loses because we make a loss on the speculative market. If we felt that the possibility of loss on trading securities was greater than the possibility of gain we obviously would not do it and we would be very poor managers if we did. However, the possibility of profit is greater than the possibility of loss, and therefore we do gain. In other words, if banking is to be conducted on the basis that we must never incur a loss, then we lock the door.

(Mr. Croll resumed the Chair.)

Q. All right, then, maybe we can establish something by coming at it in a little different way—I say maybe. Would Mr. Atkinson be able to tell the committee if this assumption is correct, that the possibility of losses you

cannot see or even calculate in the future might occur to a very large degree as a consequence of your holdings of securities?—A. Ultimate loss does not exist if we continue to hold the bonds until maturity, assuming the government meet their obligations. There is, of course, the possibility of a bank having a loss on an investment account if, in a period when bond prices are below the level at which they were bought, they have to sell some securities in order to take care of the loaning demand, but in that event the bank has presumably made up its mind that the possibilities of profit in the loaning business are greater than the loss they must face in realizing on the securities to meet that loaning demand.

Q. But if your investment account to a large degree is static until the maturity of the securities in the fund, then you would not stand any chance of a loss at all except where a government did not meet their obligations?—A. Yes, that is right.

Q. Then is it not proper to say that to a very large degree your losses would occur as a consequence of operations in which you are making an effort to increase your earnings?—A. The possibility of loss in the investment account? I think your assumption is correct but once again let me mention that we have to have a contingency account in order to take care of the market drops in the intervening period which will surely run itself out if that block of bonds is carried to maturity. But during the intervening period the present legal requirement is that we have a contingency reserve to take care of that drop.

Q. So, to a certain degree, the public of Canada is insuring your losses, or insuring the banks against losses in their trading account?—A. I do not agree with you, Mr. Low.

The CHAIRMAN: Is not the converse true; that they are insuring the people of Canada?

Mr. Low: They may be but I have not examined the other side fully yet. I will leave it at that point for the moment. But I shall come back to it again after I have had a chance to study it a little more.

The CHAIRMAN: Mr. Atkinson will be here again. I am going to give him something to think about in the interval.

This morning when Mr. Hunter was questioning you, Mr. Atkinson, I thought you did yourself less than justice in your reply. From reading the record—I shared the impression with Mr. Hunter—I have also heard it repeated time and again that the banks profited during the war by creating credit and loaning money to the government at a profit. I think between now and Thursday this is something on which you should prepare a considered statement.

The WITNESS: I think I covered that point this morning.

The CHAIRMAN: You attempted to do so and you tried very hard but you did not say "no" definitely. It is either "yes" or "no".

Mr. JOHNSTON (*Bow River*): Maybe it would not have been right.

The CHAIRMAN: You appreciate that not only do you have to reply to this question but we as members of the committee have a responsibility to the country that we should have it clear on the record. We are now adjourned until Thursday morning at 11:00 a.m. in room 277.

APPENDIX A

EXHIBIT No. 29

THE CHARTERED BANKS OF CANADA
AVERAGE COMBINED RATE OF INTEREST AND DISCOUNT
ON LOANS OUTSTANDING IN CANADA, 1934 TO 1953

Annual Average (a); 1934, 5.78 per cent; 1935, 5.35 per cent; 1936, 4.99 per cent; 1937, 4.96 per cent; 1938, 4.83 per cent; 1939, 4.65 per cent; 1940, 4.56 per cent; 1941, 4.50 per cent; 1942, 4.40 per cent; 1943, 4.35 per cent.

At December 31 (b); 1944, 4.14 per cent; 1945, 3.84 per cent; 1946, 4.22 per cent; 1947, 4.33 per cent; 1948, 4.35 per cent; 1949, 4.32 per cent; 1950, 4.39 per cent; 1951, 4.51 per cent; 1952, 4.58 per cent; 1953, 4.70 per cent.

NOTES (a) Percentages quoted for 1934 to 1943 are based on quarterly or half yearly returns made by the banks. They represent simple, not weighted, averages and are, to a small degree, estimated.

(b) Percentages quoted for 1944 to 1953 are based on annual returns made by the banks. They represent weighted averages.

EXHIBIT No. 30

THE CHARTERED BANKS OF CANADA
PARTICULARS OF INCREASES IN REST OR RESERVE FUND AND
PAID-UP CAPITAL DURING THE YEARS 1944 TO 1953 AND
TOTALS FOR PRIOR YEARS

(Amounts in thousands of dollars)

	From Profit and Loss Account	From Inner Reserves	From issue of Capital Stock	Total	PAID-UP CAPITAL
Bank of Montreal	16,000	5,000	....	21,000	....
The Bank of Nova Scotia..	3,000	....	6,000	9,000	3,000 (a)
The Bank of Toronto	4,000	....	....	4,000	....
The Provincial Bank of Canada....	550	1,000	450	2,000	1,000 (b)
The Canadian Bank of Commerce.	8,000	10,000	....	18,000	....
The Royal Bank of Canada ...	23,000	27,000	....	50,000	....
The Dominion Bank.....	3,000	2,000	....	5,000	....
Banque Canadienne Nationale ...	1,000	2,000	....	3,000	....
Imperial Bank of Canada ...	2,000	2,000	....	4,000	....
Barclays Bank (Canada) ...	....	....	2,250	2,250	1,500 (c)
The Mercantile Bank of Canada ...	....	....	400	400	1,500 (d)
All banks, 1944 - 1953 .	60,550	49,000	9,100	118,650	7,000
All banks, Prior years .	58,460	-29,500	107,790	136,750	145,500
Totals	119,010	19,500	116,890	255,400	152,500

NOTE: (a) Issue of 300,000 shares; (b) Issue of 100,000 shares; (c) Issue of 150,000 shares; (d) Issue of 150,000 shares.

APPENDIX B

PROPOSED AMENDMENTS TO BILL 338
AN ACT RESPECTING BANKS AND BANKING

Clause 2, Page 1

- By replacing, in line 14, "limiting" with "restricting".
- By deleting lines 25 to 28 inclusive.

Clause 2, Page 2

- By replacing, in line 40, "or" with "and".

Clause 2, Page 3

- By replacing, in line 4, "limiting" with "restricting".

Clause 19, Page 10

- By replacing lines 25 and 26 with "person, or to any shareholders; and".
- By replacing, in line 43, "section" with "Act".

Clause 23, Page 12

- By inserting, after "and" in line 10, "as a result thereof".
- By deleting, in line 11, "then".

Clause 30, Page 13

- By inserting, after "and" in line 18, "other".

Clause 36, Page 15

- By inserting, after "shareholders" in line 19, "according to the books of the bank".

Clause 41, Page 16

- By deleting, in line 43, "in value".

Clause 41, Page 17

- By replacing, in line 10, "amount of stock" with "number of shares".
- By replacing, in line 11, "shareholders" with "shares held by each shareholder".
- By deleting line 13.
- By relettering, in line 14, (d) as (c).
- By deleting lines 15 and 16.
- By relettering, in line 17, (f) as (d) and, in line 18, (g) as (e).

Clause 48, Page 19

- By replacing, in line 5, "records" with "books".

Clause 49, Page 19

- By replacing, in line 43, "authorized" with "made or recorded".

Clause 51, Page 20

- By deleting, in line 29, "as provided by this Act".

Clause 58, Page 24

- By deleting, in line 20, "in his discretion".

Clause 61, Page 26

- By deleting, in line 12, "from time to time".
- By inserting, after "shall" in line 30, "as occasion requires".
- By deleting, from lines 30 and 31, "from time to time".

Clause 61, Page 27

- By deleting, in line 4, "during their tenure of office".

Clause 62, Page 28

- By inserting, in line 11 after "Parliament", "within fifteen days after the making of the order or, if Parliament is not then in session,".

Clause 70, Page 31

- By inserting, after "profits" in line 28, "exceeding the rate of eight per cent per annum" and deleting the said words from line 29.
- By inserting, after "for" in line 33, "ascertained and estimated".

Clause 72, Page 33

By deleting, in lines 10 and 11, "from time to time".

Clause 74, Page 33

By replacing, in line 37, the second "or" with "and".

Clause 75, Page 35

By replacing, in lines 3 and 7, "secured" with "guaranteed".

By replacing lines 25 and 26 with "when a loan or advance to himself or a firm of which he is a member or a corporation of which he is a director is under consideration,".

Clause 81, Page 38

By replacing lines 8 to 11 inclusive with the following: "(a) in the case of property acquired or held for its own use, from the day on which it ceases to be required for its own use, as determined by the directors, and

(b) in the case of other property, from the day on which it acquired the property, and forthwith after the expiry of that".

Clause 82, Page 38

By replacing line 35 with the following: "(a) hydrocarbons in, under or upon the ground, in".

Clause 82, Page 39

By inserting, after "officers" in line 21, a comma and "employees".

By inserting, after "to" in line 28, "do all or any of the following, namely,".

Clause 82, Page 40

By replacing subclause (5) with the following: "(5) The rights and powers of the bank do not have priority over an interest or right acquired in, on or in respect of the property covered by security given under this section unless, prior to

(a) the registration of such interest or right, or

(b) the registration or filing of the deed or other instrument evidencing such interest or right, or of a caution, caveat or memorial in respect thereof,

there has been registered or filed in the proper land registry or land titles office or office in which are recorded the rights, licences or permits referred to in this section.

(c) an original of the instrument giving the security,

(d) a copy of the instrument giving the security, certified by an officer or employee of the bank to be a true copy, or

(e) a caution, caveat or memorial in respect of the rights of the bank; and every registrar or officer in charge of such proper land registry or land titles or other office to whom a document mentioned in paragraph (c), (d) or (e) is tendered, shall register or file the same according to the ordinary procedure for registering or filing within such office documents that evidence liens or charges against, or cautions, caveats or memorials in respect of claims to interests in or rights in respect of any such property and subject to payment of the like fees; but this subsection does not apply if the provincial law does not permit such registration or filing of the tendered document."

By replacing subclause (7) with the following: "(7) Notwithstanding anything in this Act, where the bank holds any security whatever covering hydrocarbons, it may take in lieu of such security, to the extent of the quantity covered by the security taken, any security covering or entitling it to the delivery of the same hydrocarbons or hydrocarbons of the same or a similar grade or kind."

Clause 84, Page 41

By replacing, in line 14, "or" with "and".

Clause 85, Page 41

By deleting, in lines 36 and 37, "making the advances".

Clause 88, Page 43

By inserting, after "manufactured" in line 3, "or produced".

By inserting, after "or" in line 18, "to".

By inserting, after "by" in line 22, "any".

By deleting, in line 46, "such".

By inserting, after "by" in line 47, "any".

Clause 88, Page 44

By inserting, before "statutory" in line 6, "any".

By inserting, after "officers" in line 50, a coma and "employees".

Clause 88, Page 47

By inserting, after "by" in line 29, "whom".

Clause 88, Page 48

By replacing, in line 6, "territory" with "any territory now forming part".

Clause 89, Page 49

By replacing subclause (2) with the following: "(2) Where security has been given to the bank under paragraph (g) of subsection (1) of section 88 upon property that is or has become affixed to real or immovable property, the rights and powers of the bank do not have priority over an interest or right acquired in, on or in respect of the real or immovable property after such property has become affixed thereto unless, prior to

(a) the registration of such interest or right, or

(b) the registration or filing of the deed or other instrument evidencing such interest or right, or of a caution, caveat or memorial in respect thereof,

there has been registered or filed in the proper land registry or land titles office,

(c) an original of the document giving the security,

(d) a copy of the document giving the security, certified by an officer or employee of the bank to be a true copy, or

(e) a caution, caveat or memorial in respect of the rights of the bank; and every registrar or officer in charge of such proper land registry or land titles office to whom a document mentioned in paragraph (c), (d) or (e) is tendered, shall register or file the same according to the ordinary procedure for registering or filing within such office documents that evidence liens or charges against, or cautions, caveats or memorials in respect of claims to interests in or rights in respect of real or immovable property and subject to payment of the like fees; but this subsection does not apply if the provincial law does not permit such registration or filing of the tendered document."

Clause 90, Page 52

By inserting, after "security" in line 29, "whatever".

By replacing, in line 30, "the" with "such".

Clause 94, Page 54

By inserting, after "branch" in line 1, "of the bank".

By inserting, before "was" in line 26, "or instrument".

Clause 99, Page 57

By replacing, in lines 8 and 9, "allotment" with "offer".

Clause 103, Page 59

By inserting, after "and" in line 34, "to the".

Clause 103, Page 60

By inserting, after "branch" in line 8, and again in line 9, "or corporation".

By deleting, in line 12, "in his discretion".

Clause 110, Page 61

By inserting, after "branch" in line 26, "of the bank".

Clause 116, Page 63

By inserting, after "shareholders" in line 27, "according to its books".

Clause 117, Page 63

By deleting, in line 44, "from time to time".

Clause 131, Page 67

By deleting, in line 20, "from time to time".

Clause 132, Page 67

By replacing lines 23 and 24 with the following: "shall pay to the Minister on demand and in any event before the final winding-up thereof, any amount that is payable by the".

Clause 137, Page 70

By replacing line 28 with "is guilty of an offence against this Act, unless under the by-laws of the bank it is unnecessary that transfers of shares of its capital stock be made in the books of the bank".

Clause 148, Page 73

By replacing, in line 1, "default in payment of" with "failure to pay".

Clause 150, Page 73

By replacing, in line 24, "not exceeding" with "of".

By replacing line 29 with the following: "or any firm of which he is a member or any corporation of which he is a director."

Clause 152, Page 74

By replacing lines 14 and 15 with the following: "transmitted by post, the date appearing by the stamp or mark of the post office in Canada upon the envelope or wrapper enclosing the" and by deleting line 18.

Clauses 135 to 156

By renumbering these clauses as follows:

135 as 156

136 as 135, retaining the heading "Commencement of Business".

137 as 136, retaining the heading "Sale and Transfer of Shares".

138 as 141, retaining the heading "Issue and Circulation of Notes".

139 as 142

140 as 143

141 as 137, retaining the heading "Annual Statement".

142 as 138, retaining the heading "Auditor".

143 as 139, retaining the heading "Inspection."

144 as 140, retaining the heading "Cash Reserves".

145 as 149

146 as 148

147 as 146; the heading "Warehouse Receipts, Bills of Lading and Other Security" now appearing over 145 to be inserted over this clause.

148 as 147

149 as 145

150 as 144, retaining the heading "Prohibited Business".

151 as 150

152 as 151, retaining the heading "Returns".

153 as 152

154 as 153, retaining the heading "Suspension of Payment".

155 as 154

156 as 155, retaining the heading "Undue Preference to the Bank's Creditors".

Schedule M, Page 86

By deleting, in Asset item 1, "subsidiary".

By deleting, in Asset item 2, "subsidiary".

By inserting, after "Mortgages" in Asset item 15, "and hypothecs".

Schedule N, Page 88

By deleting, in Asset item 1, "subsidiary".

By inserting, after "Mortgages" in Asset item 9, "and hypothecs".

Schedule P, Page 89

By replacing, in Part I, the names of banks indented under "1. Bank of Montreal" with the following:

- "(a) The Montreal Bank
- (b) The Molsons Bank
- (c) The Merchants Bank of Canada
- (d) The Merchants Bank (Quebec charter)
- (e) The Bank of British North America
- (f) The Peoples Bank of New Brunswick
- (g) The People's Bank of Halifax
- (h) The Exchange Bank of Yarmouth
- (i) Commercial Bank of Canada
- (j) The Commercial Bank of the Midland District
- (k) Bank of the People, Toronto"

Schedule P, Page 90

By replacing, in Part I, the names of banks indented under "6. The Royal Bank of Canada" with the following:

- "(a) Union Bank of Canada
- (b) Union Bank of Lower Canada
- (c) The Northern Crown Bank
- (d) The Quebec Bank
- (e) The Traders Bank of Canada
- (f) United Empire Bank
- (g) Union Bank of Halifax
- (h) The Crown Bank of Canada
- (i) The Northern Bank
- (j) Commercial Bank of Windsor
- (k) Merchants Bank of Halifax
- (l) The Merchants Bank (Nova Scotia charter)

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HOUSE OF COMMONS

First Session—Twenty-second Parliament, 1954

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(STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: DAVID A. CROLL, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 22

Decennial Revision of the Bank Act

THURSDAY, APRIL 8, 1954



WITNESSES:

Mr. T. H. Atkinson, President of The Canadian Bankers' Association and Vice-President and General Manager of the Royal Bank of Canada.

Mr. Neil J. McKinnon, General Manager of The Canadian Bank of Commerce.

STANDING COMMITTEE
ON
BANKING AND COMMERCE

Chairman: David A. Croll, Esq.
and
Messrs.

Adamson,	Follwell,	Michener,
Applewhaite,	Fraser (<i>Peterborough</i>),	Mitchell (<i>London</i>),
Arsenault,	Fraser (<i>St. John's East</i>),	Monteith,
Ashbourne,	Fulton,	Nickle,
Balcom,	Gagnon,	Noseworthy,
Benidickson,	Hanna,	Philpott,
Bennett (<i>Grey North</i>)	Hellyer,	Picard,
Boucher (<i>Restigouche- Madawaska</i>),	Henderson,	Pouliot,
Breton,	Huffman,	Quelch,
Cameron (<i>Nanaimo</i>),	Hunter,	Robichaud,
Cannon,	Johnson (<i>Kindersley</i>),	Rouleau,
Cardin,	Johnston (<i>Bow River</i>),	Stewart (<i>Winnipeg North</i>),
Crestohl,	Low,	Tucker,
Croll,	Macdonnell,	Weaver,
Dufresne,	MacEachen,	Wood—50.
Dumas,	Macnaughton,	
Fleming,	Matheson,	
	McMillan,	

R. J. GRATRIX,
Clerk of the Committee.

NOTICE OF MOTION

TUESDAY, April 6, 1954.

Mr. Macnaughton—On the Clause by Clause consideration of Bill No. 338, An Act respecting Banks and Banking—That Clause 21 of Bill 338 be amended by adding thereto the following new subclause (4):

(4) A person is not eligible to be elected or appointed a director after the first day of July, 1959, if he has reached the age of seventy-five years.

MINUTES OF PROCEEDINGS

THURSDAY, April 8, 1954.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Applewhaite, Balcom, Cameron (*Nanaimo*), Cannon, Crestohl, Dumas, Fleming, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Fulton, Johnson (*Kindersley*), Johnston (*Bow River*), Macdonnell, Macnaughton, Matheson, Mitchell (*London*), Monteith, Noseworthy, Philpott, Pouliot, Quelch, Robichaud, Tucker, Weaver, Wood.

In attendance: Mr. C. F. Elderkin, Inspector General of Banks; Mr. G. K. Bouey, Assistant Chief, Research Department, Bank of Canada; Mr. T. H. Atkinson, President of the Canadian Bankers' Association and Vice-President and General Manager of the Royal Bank of Canada; Mr. Arthur C. Jensen, General Manager of the Bank of Montreal; Mr. C. S. Frost, Vice-President and General Manager of the Bank of Nova Scotia; Mr. William Kerr, General Manager of the Bank of Toronto; Mr. Neil J. McKinnon, General Manager of The Canadian Bank of Commerce; Mr. A. C. Ashforth, Vice-President and General Manager of The Dominion Bank; Mr. Ulric Roberge, General Manager of the Banque Canadienne Nationale; Mr. John S. Proctor, General Manager of the Imperial Bank of Canada; Mr. J. H. Vale, Vice-President and General Manager of Barclays Bank (Canada); Mr. M. Visser, General Manager of The Mercantile Bank of Canada; Mr. W. T. G. Hackett, Assistant General Manager of The Bank of Montreal; Mr. J. A. Fiott, Assistant to the General Manager of The Bank of Nova Scotia; Mr. C. B. Neapole, Assistant General Manager of The Royal Bank of Canada; Mr. J. D. Gibson, Assistant General Manager of The Bank of Nova Scotia; Mr. A. T. Lambert, Assistant General Manager of The Bank of Toronto; Mr. Bernard Normandin, Assistant General Manager of The Provincial Bank of Canada. Having disposed of a Private Bill in respect of which no verbatim evidence was taken, the Committee resumed consideration of Bill No. 297, An Act to amend the Bank of Canada Act, and Bill No. 338, An Act respecting Banks and Banking.

Mr. Elderkin tabled the following document, which is to be found as Appendix "A" to this day's evidence:

Exhibit 31: Rules of the Minister of Finance for the Determination of The Inner Reserves of a Bank.

Mr. Atkinson tabled the following document, which is to be found as Appendix "B" to this day's evidence:

Exhibit 32: Price Ranges of Representative Bond Issues, 1946-1954.

As requested at the previous meeting, Mr. Atkinson made a statement in respect of the following matters:

- (a) The role of the Chartered Banks during the war years with particular reference to the effect of government financial operations on the position of the Banks;

(b) The legal position of the Banks with respect to The Combines Investigation Act, and the views of the Banks respecting charges for certain services, and

(c) Bank Reserves.

Thereupon the examination of Mr. Atkinson was continued.

At 1.05 o'clock p.m., the examination of the Witness still continuing, the Committee adjourned to meet again at 3.30 o'clock p.m. this day.

AFTERNOON SITTING

The Committee resumed at 3.30 o'clock p.m. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Ashbourne, Balcom, Cameron (*Nanaimo*), Cannon, Crestohl, Dumas, Fleming, Fraser (*Peterborough*), Fraser (*St. John's East*), Hanna, Johnson (*Kindersley*), Johnston (*Bow River*), Macdonnell, MacEachen, Macnaughton, Matheson, Mitchell (*London*), Philpott, Quelch, Tucker, Weaver, Wood.

In attendance: Same as at the Morning Sitting.

Mr. Atkinson was further examined, and retired subject to recall.

Mr. McKinnon was called, and presented a brief on The Personal Loan Plan of The Canadian Bank of Commerce.

The said brief was ordered to be printed as an appendix to this day's evidence and is to be found as *Appendix "C"*.

Mr. McKinnon made a statement in explanation of the brief, was examined thereon and retired.

At 5.30 o'clock p.m. the Committee adjourned to meet again at 11.00 o'clock a.m., Tuesday, April 27, 1954.

R. J. GRATRIX,
Clerk of the Committee.

EVIDENCE

APRIL 8, 1954

11.00 a.m.

The CHAIRMAN: I see a quorum. Mr. Elderkin has a matter to table before the committee.

Mr. ELDERKIN: Mr. Chairman, at your request I am tabling as an exhibit the rules of the Minister of Finance for the determination of the inner reserves of a bank, which rules were distributed to some of the members and to which I referred in my evidence last Thursday. For the information of the members, I have appended a note on the foot of the statement showing that the aggregate of all the general loss or contingency reserves as at the 1953 fiscal year-end, would have amounted to \$319 million, if all the banks had been holding the permitted maximum reserves.

(See Exhibit 31)

The CHAIRMAN: There are a few matters that were left in abeyance at the last meeting. Mr. Atkinson will now give us his views on those matters.

The WITNESS: Mr. Chairman, in the light of the discussions at Tuesday's session of the committee, I have thought it desirable to make a statement regarding the role of the chartered banks during the war years with particular reference to the effect of government financial operations on the position of the banks.

The chartered banks experienced a substantial increase in assets during the war years. On December 31, 1938 total assets were \$3,431 millions. On December 31, 1945 total assets were \$7,353 millions, an increase of \$3,922 millions or 114 per cent.

Most of this increase in assets was accounted for by increase in holdings of government of Canada direct and guaranteed securities. On December 31, 1938 these amounted to \$767 millions. By December 31, 1945 these holdings had risen to \$3,506 millions, an increase of \$2,739 millions or 357 per cent.

During the same period the change in the chartered banks' holdings of Canadian loans and non-federal government investments was very small. On December 31, 1938 these amounted to \$1,628 millions. On December 31, 1945 they were \$1,817 millions, an increase of only \$189 millions or 12 per cent.

The reasons for this very small increase in loans and non-federal government securities, in the face of a substantial concurrent expansion in industrial activity, were:

- (a) Production for civilian purposes was under close restriction and, in certain cases, under outright prohibition.
- (b) Civilian inventories were under close control and were also affected by material shortages. Moreover, the turnover of civilian goods was rapid.
- (c) A good many firms entered the war in a strong liquid position, and with small inventories and quick turnovers the need for bank financing was very limited.

- (d) Capital expenditures of provinces and municipalities were in large measure deferred in conformity with the priority requirements of the war program.
- (e) Financial needs for production of goods required for the war program were provided in large measure by government through progress payments, "capital assistance" and "special depreciation".

The banks' large acquisitions of government of Canada securities arose directly out of the part played by the banks in financing that portion of the cost of the war program which could not be met by taxation and by borrowing from the public.

In the earlier stages of the war the chartered banks' acquisitions of government of Canada securities were largely confined to purchases of special low-interest bearing short-term banking issues directly from the government. The predominant medium for this direct financing took the form of six-month certificates of deposit which reached a high point in amount outstanding of \$1,340 millions in 1945. The interest rate on these certificates of deposit throughout the wartime period was .75 per cent. In this connection the then Minister of Finance, on July 24, 1943, made the following statement (Hansard, July 24, 1943, p. 5407):

The banks charge us, whenever they lend us money, on a great part of the money we borrow—six months' money—three-quarters of one per cent. Is that an unreasonable charge? It must be borne in mind that when the government pays out money and that money goes to the banks, the banks have to pay interest on it. When we borrowed \$782,000,000 from the chartered banks last year at three-quarters of one per cent and paid that money to contractors, civil servants and others, those who received the money from the government, or most of those who received it, took that money back to the bank. If they took half of it back to the bank and put it in savings accounts and the other half in current accounts and the banks paid one and a half per cent on what was put in savings accounts, then the outlay to the banks, the cost of the transaction, was three-quarters of one per cent; and as a matter of fact three-quarters of one per cent is, as nearly as we can estimate it, the cost to the banks of doing that business. In other words, we consider that the banks are rendering this service to the government at cost.

As the war progressed, the banks also made sizeable purchases of government of Canada issues in the open market. The banks' function in this respect was that of "mopping up" the market through the purchase of Victory Bonds originally bought by non-banking investors but not subsequently held by them. This mopping up function was essential to the successful conduct of the war finance program. This necessity was recognized by the Bank of Canada which kept the chartered banks in a cash position adequate to provide a satisfactory cash reserve against the new deposit liabilities which were the counterpart of the banks' acquisition of government debt. In this connection the following extract from the annual report of the Bank of Canada under date of February 10, 1945 is significant:

In this situation, the government's policy has been to cover its financial requirements to the maximum possible extent first by taxation and secondly by borrowing the savings of the public. Although Dominion government disbursements between August 31, 1939 and December 30, 1944 have been nearly \$20 billions, about one-half of this total has been covered by taxes and other revenues. Moreover, through Victory

Loan and other campaigns specifically directed toward the second objective, it has been possible to cover two-thirds of the government's over-all borrowing by means of bonds sold to and retained by non-banking investors.

The remaining one-sixth of the government's total requirements has been financed to a considerable extent by the chartered banks, which has involved a substantial increase in their holdings of government securities, and consequently in the volume of savings and demand deposits of the public with the banks. This increase in deposit liabilities has in turn given rise to a need on the part of the chartered banks for larger cash reserves. The policy of the Bank of Canada—implemented through its purchase of government securities in the market—has been to keep pace with these necessities, without trying to bring about expansion of credit for purposes unrelated to war needs.

The entire war-financing operation was conducted against a background of low and declining interest rates.

As a result of the influences above described, a greatly increased proportion of the Canadian deposit liabilities of the banks was backed by holdings of low-yielding government securities, while the proportion of the loans and non-federal government securities to deposits decreased markedly. To illustrate:

	Canadian Deposits	Govt. of Canada sec'y holdings	% Canadian Deposits	Loans and non-fed. govt. securities	% Canadian Deposits
	(million \$)	(million \$)		(million \$)	
Dec. 31, 1938 ...	\$2,498	\$ 767	30.7%	\$1,628	65.2%
Dec. 31, 1945 ...	\$5,949	\$3,506	58.9%	\$1,817	30.5%

Thus, whereas in 1938 government of Canada securities were equivalent to 30.7 per cent of the banks' Canadian deposits, by 1945 this proportion had nearly doubled, having risen to 58.9 per cent. Conversely, while in 1938 Canadian loans and non-federal government investments equalled 65.2 per cent of Canadian deposits, by 1945 this proportion had dropped sharply to 30.5 per cent.

This shift in the distribution of assets, plus the general decline in the rate of interest on all assets, plus higher corporate taxes, combined to more than offset the effect, on the earnings of the banks, of the concurrent increase in the dollar volume of assets.

The effect on the combined net profits, after taxes, of the reporting of the nine reporting chartered banks and on the dividend payments made by these banks during the war years was:

	Net Profits (\$1000's)	% Assets	Dividends (\$1000's)
1939	\$13,756	36%	\$12,203
1940	13,239	35%	12,320
1941	13,113	32%	12,320
1942	12,385	26%	11,640
1943	11,744	21%	9,600
1944	11,355	18%	9,400
1945	12,541	17%	9,600

It will be noted therefore that at no time between 1940 and 1945 inclusive did the combined net profits, after taxes, of the nine reporting chartered banks reach the levels of 1939, while between 1939 and 1945 the rate of profit earned

on assets employed was more than cut in half. Dividend payments over the period declined by more than 20 per cent. The answer to the question "Did the banks increase their profits as a result of the war?" is "No".

The CHAIRMAN: There is still another matter; in fact there are two other matters to which Mr. Atkinson will speak now.

The WITNESS: Mr. Chairman, on Tuesday you asked me to obtain a legal opinion regarding the Combines Investigation Act. I have a legal opinion signed by Mr. R. C. McMichael, Q.C., General Counsel of the Canadian Bankers' Association, which reads as follows:

You have requested my opinion as to whether it is lawful for the banks to make an agreement among themselves fixing charges to be made by each of the banks for services rendered to their customers. I am of the opinion that it is lawful. The Combines Investigation Act is restricted in its application to a combination having relation to any commodity which may be the subject of trade or commerce. The charges made by the banks are for services rendered and have no relation to any commodity. Hence, the Combines Investigation Act has no application to such charges.

With reference to our conferences earlier today concerning the interpretation of the present legislation respecting combines and more particularly with respect to the question put to you by the chairman of the Banking and Commerce Committee of the House of Commons on Tuesday last, we confirm the verbal opinion given to you that this legislation does not contemplate a combine with respect to services rendered by banks and there is no statutory provision or common law to prohibit banks from reaching an agreement with respect to the charges to be made by each of them for such services.

The rubber companies and paper companies referred to in the question put to you by the chairman of the committee have been or are being charged under section 498 of the Criminal Code with respect to certain alleged actions of those companies concerning articles or commodities which are the subject of trade or commerce. It is our opinion that the services provided by the banks which are now under consideration are not articles or commodities which may be the subject of trade and commerce and therefore section 498 of the Code is not applicable to these services.

The Combines Investigation Act in effect prohibits the formation or operation of a combine for certain purposes and the term combine is defined to mean a combination having relation to any commodity which may be the subject of trade or commerce. Again, as in the case of the Criminal Code, it is our opinion the services in question are not commodities which may be the subject of trade or commerce and therefore the said Act is not applicable to such services nor can an agreement between the banks fixing the compensation for such services be described as a combine within the meaning of the Act.

Mr. APPLEWHITE: Mr. Chairman, that letter is signed by whom?

The CHAIRMAN: It is signed by "Gowling, MacTavish, Osborne and Henderson".

Mr. FLEMING: The chairman could have given us that opinion without any charge.

The WITNESS: Now, Mr. Chairman, may I read a short statement with reference to this which might be helpful to the committee in their thinking in respect to this matter.

1. The Canadian banks have for years entered into discussions and have reached understandings respecting charges for certain services. To the best of our knowledge similar arrangements are entered into between banks in many other countries.

2. The result is, we suggest, no different from what would be bound to happen in any market for financial services such as the banks provide. No one bank or group of banks could for any length of time continue to provide a service at a higher charge than that which any one bank or minority of banks were willing to make. In point of fact, and this I wish to emphasize, discussions of charges which have taken place have almost invariably resulted in the bank which is willing to operate at the lowest charge setting the pattern for all the others.

3. The competitive drive for business among individual banks and as between the banks and the many other institutions which provide some comparable services are very strong forces operating to keep down the level of charges to the public. It would clearly be very poor policy from the banks' point of view to make unreasonable charges and thereby lose business. The banks, which are dependent on public confidence and support, and which are individually anxious to increase their business and participate in the growth of the country, are acutely conscious of the public relations aspect of their policies.

4. From the standpoint of service to the public, charges for banking facilities which are reasonable and are readily justifiable on a cost basis, and are at the same time relatively uniform, assist the smooth and efficient handling of business transactions. Charges which fluctuated over short periods of time or varied widely as between different areas, would lead to confusion and uncertainty in the minds of customers and inequities as between treatment of one customer and another. If through unrestrained price cutting the banking system itself were to be weakened, the effects would be far-reaching from the standpoint of the Canadian public.

5. If charges for banking services were left to the discretion of branch managers there would be variations dependent upon the costs of the individual branch. Customers of branches in some districts, where the operating costs are high, would be paying substantially more than those in heavily populated areas where such costs are lower. By adopting relatively uniform minimum charges, the banks enable customers over a very broad area to avail themselves of a wide range of banking services for the same charges that urban customers pay.

6. It is therefore obvious to us that the business of branch banking which services the entire nation, requires some basis of uniform minimum charges if it is to fulfil fairly and efficiently the requirements of the Canadian people.

During the discussion on Tuesday several references were made to the fact that bank profits were high and in some cases they were mentioned as unreasonably high. Mention was also made of the substantial reserves and I felt that it might clear up and shorten the time of the committee on this subject if we made a statement on the whole picture. If my voice holds out I would like to read it.

The capital of the chartered banks, or the shareholders' funds consists of paid-up capital, reserve or rest funds, and undivided profits. At the end of 1953 paid-up capital of the 11 banks was \$152.5 millions, reserve or rest funds were \$260.4 millions, and undivided profits were \$6.4 millions, a total of \$419.3 millions.

The published reserve or rest funds, hereinafter referred to as rest funds, are an even larger component of total capital funds than is paid-up capital. These rest funds have been built up over a long period of years—in some cases extending over more than a century—out of retained earnings and out of capital issues at a substantial premium. Recently, for example, a bank made a new issue of capital at \$30 per share as opposed to a par value of \$10 per share which meant that two-thirds of the proceeds of the issue went into rest fund and only one-third into paid-up capital. Similarly in the twenties which was the last period of widespread bank capital flotations, bank stock issues were sold at a premium and substantial amounts were thus added to rest funds.

Bank capital—paid-up, rest funds, and undivided profits—has not increased very greatly in the past quarter century. The total of these items at the end of 1953—\$419 millions—was only 32 per cent in excess of the total at the end of 1929—\$318 millions. There was some decline in the depression since a number of banks found it necessary to draw on their rest funds and it was not until 1946 that bank capital regained and passed the 1929 level. Since that time, capital funds have increased gradually year by year mainly in the form of adding to rest funds. The facts are as follows:

Paid-up capital has increased from \$144 millions at the end of 1946 to \$152.5 millions at the end of 1953.

Rest funds over the same period rose from \$176 millions to \$260.4 millions.

The increase in the capital funds of the banks has not been nearly so great as the increase in bank assets. The rise of 32 per cent in capital funds from 1929 to 1953—from \$318 millions to \$419 millions—is modest by comparison with the three-fold increase in bank assets—from \$3,521 millions in 1929 to \$10,722 millions in 1953.

To put it another way, the ratio of bank capital funds to bank assets or liabilities is considerably lower than it used to be. In 1929, the ratio of capital to assets was approximately 9 per cent and this ratio is typical of the twenties and thirties. Today, the ratio is 4 per cent and has been around 4 per cent throughout the post-war period. Additions to capital during post-war years have done no more than to maintain the ratio at this percentage. They have not increased it.

The decline in the ratio of capital funds to assets reflects the monetary expansion and inflation associated with the second world war. Bank profits did not increase during the war and there was no practicable basis for increasing bank capital in line with the sharp rise in assets. In every wartime year, bank profits after taxes were lower than in 1939.

This decline in the ratio of bank capital to assets is a world-wide phenomenon. In the United States the ratio for commercial banks declined from 13.8 per cent in 1930 to 6.8 per cent in 1950, and in Great Britain the ratio dropped from 6.4 per cent to 2.3 per cent over the same period. In both cases, the greater part of the decline reflects the war-generated monetary expansion and inflation. There is no reason to suggest that the ratio of bank capital to assets should be restored to that prevailing twenty or more years ago. The banks hold a considerably larger proportion of their assets in government securities today than in the twenties with a consequent reduction in the risks involved. It should also be pointed out that national economic and monetary policies have developed greatly in the last quarter century. Nevertheless, it will be clear why the banks have been adding to their capital funds in recent years, and why, despite the fact that rest funds individually and considered by themselves may appear to be large, the banks regard it desirable to add further to their capital funds.

The ability of the banks to add to their capital funds depends on their earnings and prospective earnings. To increase their capital, they can either plow back tax-paid earnings as they make them or they can issue additional stock provided their prospective earnings are such as to make their share offerings reasonably attractive to potential buyers.

In relation to their capital and capital needs, bank earnings have in fact been moderate. Net profits, after allowance for pension funds, depreciation of premises, contingency reserves, and dominion and provincial taxes, are shown below and are also expressed as a percentage of bank capital funds (paid-up, rest funds and undivided profits) for the years 1943 to 1952. The table will be on the record.

Mr. FLEMING: Is the table similar to the one in Mr. Elderkin's statement which is already on record?

The CHAIRMAN: Yes.

The WITNESS: This goes a little further back

The CHAIRMAN: It is in the same form. Reading it will not help to understand it now. It must be studied.

The WITNESS: From 1943 to 1952 the average net profits were 18.5 per cent, and the average as a percentage of capital funds was 5.5 per cent.

	<i>Net Profits</i> <i>(\$ millions)</i>	<i>As a Percentage</i> <i>of Capital Funds</i>
1943	11.6	4.0%
1944	11.4	3.9%
1945	12.5	4.2%
1946	16.5	5.0%
1947	19.4	5.8%
1948	20.8	6.0%
1949	21.8	6.2%
1950	23.4	6.6%
1951	22.6	6.1%
1952	24.5	6.5%
Average	18.5	5.5%

Compared with other businesses these are low rates of profit. For manufacturing or merchandising concerns a typical rate of return during these years would have been 10 per cent or more, a substantial part of which would have been retained to increase capital. The banks, of course, have added to capital funds out of their tax-paid profits, but as noted above these increases plus two new stock flotations have been no more than sufficient to keep the ratio of capital funds to assets at 4 per cent.

As a matter of interest, it may be added that in 1929 bank profits, at a very much lower level of assets, were \$21.8 millions compared with the average of \$18.5 millions in the ten years of high activity from 1943 to 1952. As a percentage of capital funds, net profits in 1929 were 6.9 per cent compared with the average more recently of 5.5 per cent.

Dividends paid during these same years represent no more than a reasonable return on capital employed. They are shown below in dollar amount and as a percentage of capital funds. Once again the table covers the same period.

	<i>Dividends Paid</i> <i>(\$ millions)</i>	<i>As a Percentage</i> <i>of Capital Funds</i>
1943	9.6	3.3%
1944	9.4	3.2%
1945	9.6	3.2%
1946	12.6	3.8%
1947	14.2	4.2%
1948	14.9	4.3%
1949	15.1	4.3%
1950	15.6	4.4%
1951	17.3	4.7%
1952	18.6	4.9%
Average	13.7	4.1%

It should be added that in 1929, dividends paid were \$18.2 millions compared with the average from 1943 to 1952 of \$13.7 millions.

The inner or contingency reserves of the banks are something quite different from their published rest or reserve funds. The published rest funds are part of the banks' capital accumulated over a long period of years. They represent part of the shareholders' investment and are there to give assurance of financial capacity, stability and protection. Banks do not willingly reduce their published rest funds and would, if anything, like to see them larger.

On the other hand, the contingency reserves are not part of the banks' capital funds in the sense that they do not belong to the shareholders. They are built up to cover losses on loans and investments which are bound to take place from time to time. They tend to be large when times are good and loans are rising and they are inevitably drawn upon when times are less favourable.

The existence of contingency reserves puts the banks in a position to assume continuing risks. Their existence at an adequate level helps to assure that the banks will perform their function of providing short-term credit requirements under varying conditions and will not be unduly influenced by short-term changes in the business climate.

The Minister of Finance sets a ceiling, related to the nature and amount of bank assets, above which appropriations to contingency or inner reserves must pay full income taxes. For the banker, this ceiling may rather be regarded as a target. For it is the plain duty of the banks to see that inner reserves are adequate in order that they may perform their important function of lending in a balanced and efficient manner.

Thank you, Mr. Chairman.

In an aside and without thinking, the other day when someone mentioned the question of ownership certificates I gratuitously made the remark that that was another service we render without charge. I realize now I made a mistake—we do get paid for it. We receive $2\frac{1}{4}$ cents per ownership certificate received by the banks and delivered to the income tax division and one-eighth of one per cent of the taxes collected and remitted in connection with the 15 per cent withholding tax on coupons held by non-residents. I just want to correct that for the record. It was not part of the evidence, it was a remark I made that was wrong.

Mr. FLEMING: Does the charge made correspond to the cost to the bank of rendering the service? Is it possible to isolate the cost in a case like that, Mr. Atkinson?

The WITNESS: I do not know if our cost committee have tried to isolate that or not. We have many things isolated. I could find out for you.

Mr. FLEMING: If it is going to involve a lot of research and if the answer is not readily available, I will not press it.

The WITNESS: I was not present when the banks went into the cost and set the rate. It is not paid by the client but by the department.

The CHAIRMAN: Mr. Pouliot?

By Mr. Pouliot:

Q. Thank you, Mr. Chairman. It is gratifying, Mr. Atkinson, that you have corrected an error, because here in Ottawa nobody ever makes an error—they are infallible—and the members are always wrong. Now, if you permit me to be personal, how long have you been with the Royal Bank of Canada?—A. In June, it will be 43 years.

Q. 43 years. How did you start?—A. I started as a junior clerk in New-castle, New Brunswick.

Q. At what salary?—A. \$250 a year.

Q. Well now, according to the system of promotion which is in force in the banks, you won your spurs, and occupied various minor positions and then you were promoted. I would like you, if possible, to tell us how a banker gets his spurs in the service of a bank?—A. Well, that would be rather difficult. Modesty would prevent me from telling my own story.

Q. I do not want to offend your modesty, but if you tell us what positions you have occupied successively it will assist us in understanding the policy of the banks in rewarding services?—A. I suppose it is correct to say that promotion within a bank, notwithstanding the number of thousands of people employed, rarely takes the same path. In fact, I would be almost inclined to say it never takes the same path. Every person's experience is a different experience. If you would like me to run casually over my experience, I would be very happy to do it.

Q. Just mention the positions you have occupied successively.—A. I joined the bank in 1911 as a junior clerk which involved at that time, and probably still does, running around the street doing errands, delivering drafts and picking them up and all sorts of semi-errand boy operations. Between 1911 and 1914 I did almost everything there is to be done in a small office up to the position of ledgerkeeper. I was about to be made a teller, when in August 1914 I enlisted and was away for five years. When I returned, I came back to the same branch in my home town as an assistant accountant, and therefore hold the distinction of never having been a teller. Some people have been unkind enough to say they would not trust me with cash!

Mr. CAMERON: It has never been proved one way or the other!

The WITNESS: I was then made an accountant of that branch and in 1920 I went to Halifax as assistant accountant in that much larger office. Two years later I was appointed accountant and in 1924 I was put in charge of personnel in the maritime provinces. Later in the same year I came to head office in charge of personnel for the provinces of Quebec and New Brunswick. I occupied that position until 1928 when I was transferred to supervision of credits, firstly those of Saskatchewan, and later those of Ontario. In 1929 it was decided to organize a securities trading department, and I was given the job of organizing that. I was there until 1938, when I was appointed supervisor of branches in Quebec, New Brunswick and eastern Ontario. In 1943 I was made an assistant general manager, and in 1949 general manager.

By Mr. Pouliot:

Q. Well, thank you Mr. Atkinson, but I presume that the experience of the other general managers of the chartered banks is about the same?—A. I would think I varied quite a little bit from the usual. From 1924 I have been a head office official whereas, I think, normally there is likely to be more branch experience involved.

Q. Yes, I understand that, but what I meant is that most bankers who now occupy high positions in the bank have started in minor positions, and they have gained experience all along while serving the bank?—A. That has been the pattern of Canadian banking throughout, yes.

Q. And your experience in the various positions that you have occupied acquainted you with each branch of the service?—A. That is right.

Q. And, besides that, afforded you the opportunity of meeting many members of the staff of the bank?—A. That is right.

Q. And you were able to judge their ability and so on?—A. Yes.

Q. It afforded you contact with the staff and with the various departments of the bank?—A. Yes, that is right.

Q. Now, Mr. Atkinson, with regard to the charges for services, competitors may be on speaking terms?—A. We have a friendly fraternity, yes.

Q. Just the same as lawyers who argue against each other may be on friendly terms? Well now, your tariff for charges is about similar to the lawyer's tariff, is it not?—A. I am afraid I do not know the lawyer's tariff. I would be surprised if that were as low as ours.

Q. I mean in theory, not in practice?—A. Yes.

Q. What I mean is, although you compete together, you may come to an understanding with regard to the charges in order not to impose too high charges on your customers?—A. That is right.

Q. Because if you do, they will leave you?—A. Yes.

Q. Well now, with regard to the charges, Mr. Atkinson, I understand that there are charges for cheques on the savings accounts only?—A. No, there are also charges for the current accounts.

Q. Well, for outside?—A. No, for the operation of a current account there is also a charge.

Q. What I understand is that if one sends a cheque from Ottawa to Quebec City or Toronto there might be a charge unless the cheque is made payable at par?—A. Yes, that is right.

Q. Well, what I refer to is the charging of the cheque to the account. Suppose, for instance, that a customer of your bank has two accounts, one savings account and one current account, and he issues a cheque on the savings account, there is a charge for that?—A. The charge is only applicable if the balance is below a certain amount, and if the number of cheques issued is more than a certain amount. There is a certain level of free cheques permitted even on savings accounts.

Q. Yes. Well now, on current accounts suppose that one issues a cheque, you see, payable in town here. There is no charge on it if the cheque is negotiated at a bank in town?—A. If the current account has too low a balance or the number of cheques issued against that account is beyond the free amount permitted, there is a charge to the owner of the account, on current accounts as well as on savings accounts.

Q. As well as on savings accounts. What is the purpose of that charge?—A. To try to meet to some extent—and not to the full—the costs of handling these many thousands of pieces of paper.

Q. Yes, and particularly on savings accounts, the interest is calculated on the minimum amount of the account?—A. Minimum quarterly balance.

Q. Minimum quarterly balance, yes, and it requires special calculation, and, if a customer leaves his balance without touching it, it is easier to calculate the interest than if he issues cheques against his savings account?—A. Oh, yes, it is much easier to calculate interest on what we call a semi-dormant account than it is on an active account.

Q. Therefore it is more expensive for the bank to calculate the interest on an active savings account than on a semi-dormant account, as you say?—A. Yes, it takes a longer time.

Q. Now, if one makes a deposit for a certain amount of money in savings account and then another on current account, he will have less charges on the current account than on the savings account?—A. Less charges on current accounts, yes. Once again, with certain free cheques permitted, and over a certain balance no charge, the charge on a current account cheque is six cents, as opposed to ten cents on a savings account cheque.

Q. Because no interest has to be calculated on the current account?—A. Plus the fact that our current account departments in almost all branches are operated mechanically, which means that we can handle current account chequing in less time than we can handle savings account chequing.

Q. Now, Mr. Atkinson, with regard to the hidden reserves of the bank, you have to report them to the Minister of Finance?—A. The inspector-general inspects our reserve account annually, and he makes the report to the minister.

Q. He makes the report to the Minister of Finance, and as the report is made to the Minister of Finance, it means that the whole cabinet would be acquainted with the decision made by the Minister of Finance, as they are jointly responsible?—A. That I do not know of my own knowledge, Mr. Pouliot. I do not know what happens.

Q. Yes, but you report to the inspector-general, and the inspector-general reports to the Minister of Finance. That is it, Mr. Elderkin?

MR. ELDERKIN: That is right.

By Mr. Pouliot:

Q. Well, now, I find, Mr. Atkinson, that the banks should have some leeway, in the carrying on of their business, and inasmuch as the cabinet is given the opportunity to be informed by the Minister of Finance of the amount of the hidden reserves, I am satisfied, and I am the more so because the inspector-general is the only remaining vestige of the former supervision of the banks by the Minister of Finance. With regard to the making of broad banking policies, do you consult the Minister of Finance or the Bank of Canada?—A. Our consultation with respect to broad banking policy is with the Governor of the Bank of Canada, as a rule.

Q. I understand it. Before that—it was before your time, naturally—it was with the Minister of Finance himself. When Mr. Robb was the Minister of Finance there was no Bank of Canada, and the Canadian bankers had to meet the Minister of Finance to decide about their broad banking policies.—A. Yes, I understand that they operated directly under the Department of Finance.

Q. It was before your time. Well, now, the Governor of the Bank of Canada is the czar of Canadian banking. I will not ask you to answer that, because I have my personal opinion, which I stated in the House. By the way, Mr. Atkinson, now you occupy a position of trust, the highest that can be given to a Canadian banker. You are the president of The Canadian Bankers' Association.

The CHAIRMAN: That is not a question; it is a statement.

Mr. POULIOT: It is a statement, but I believe that it is agreed.

The CHAIRMAN: Of course.

By Mr. Pouliot:

Q. Now I have to ask you another personal question. Do you have any honorary degrees in economics?—A. No, sir.

Q. Well, I have the more respect for you for that. Now, I come to my point. You have made your way by working hard, by running errands, as you say, when you were a young boy, and then by working hard. You have been in contact with thousands and thousands of men, and you have personal experience of not only the requirements of the bank but the requirements of the Canadian people at large. Well, that is something, and I have known some bankers—some of them are dead—and especially your former chief, Mr. Morris Wilson, who was born in Nova Scotia, and who was very much interested in what was going on in parliament. I remember that in his office, behind his desk, on the left side, he always had Hansard and he followed it very closely.

Mr. FLEMING: Mr. Pouliot's speeches especially?

Mr. POULIOT: You were not then a member of parliament. I was not indiscreet enough to ask him if he was a gentleman of leisure to the point of reading my speeches, but what struck me was that that gentleman, who had a lot to do, took enough time to be informed about what was going on in parliament. And I noticed that Mr. Marsh, the late Mr. Marsh, the former President of the Bank of Toronto, and Mr. B. S. Vanstone, the present President, and the late Mr. W. D. Ross, whom I met very often, and the late "Tommy" Church, who was a close friend of mine, and Mr. Enman, the President of the Bank of Nova Scotia, and Mr. H. D. Burns, the Chairman of the Board of the Bank, and Grant Macintyre, the former Assistant General Manager of the Bank of Nova Scotia, all followed Hansard. It was part of their daily information about the business of the country. Well, this is very good and now, to come back to other business: What about salaries of the clerks and tellers in the banks?—A. I will give you the Royal Bank figures for the junior employees which are the only ones of course which I know.

Q. You do not know if they are uniform?—A. Oh no, I do not know. In the Royal Bank the average salary of new employees the first year is \$1,711.

Mr. CRESTOHL: Is that for male or female employees?

The WITNESS: These are for male employees. The second year the average salary is \$2,006; the third year, it is \$2,360; the fourth year, it is \$2,773; and the fifth year, it is \$3,068. These are in cities, and they do not include annual bonuses, if any, because they are variable depending on conditions and prosperity. Would you care to have the figures for the rural areas?

By Mr. Pouliot:

Q. If you please.—A. In the rural areas the average salary for the first year is \$1,593; the second year, \$1,888; the third year, \$2,242; the fourth year, \$2,655; and the fifth year, \$2,950.

Q. Well, they have increased considerably since you went into the bank for the first time at \$250 a year.—A. I cannot see anything here as low as \$250 now.

Q. I am sure that you see to it to give your employees just as fair a salary as could be given.—A. I think that is very general in the banks today. They attempt to meet at least the going rates for similar types of employees.

Q. Probably for two reasons; I mean: you know about the work that is done; it is a work that is very difficult. I mean the tellers. You have not been

a teller, but you know about the work that is done. It is a work that is very difficult because once a teller does not balance, he has to pay out.—A. Yes.

Q. When the teller does not balance his books?—A. I think it is common practice for a teller to meet the difference if he is short in his cash.

Q. Yes, and that is the first thing; and the second thing is that a teller, male or female, will be counting thousands of dollars each year and must have some temptation, or resist temptation to steal money.—A. I suppose there is no doubt that there is temptation when you are handling money.

Q. Yes, and especially if he has to meet debts or something; it is a very delicate situation for a young boy or a young girl to handle amounts of money like that; and you take it into consideration in establishing the salary, do you not?—A. Oh yes, of course.

Q. Now, there is something else; if a burglar gets into the bank for a hold-up, the first one who is exposed is not the manager; it is the teller?—A. That is right.

Q. And that is another reason too; and by the way, Mr. Atkinson, are there many tellers who are short in their accounts, who do not behave as they should?—A. Oh, very few in recent days in my experience, Mr. Pouliot. Defalcations on the average in the Royal Bank run, according to this statement, something less than \$10,000 in a year.

Q. For millions and billions of dollars?—A. And having regard to 13,000 odd employees.

Q. Yes; and that is probably less than \$1 per employee?—A. That is right.

Q. I was surprised yesterday—not yesterday, Tuesday, at the insistence of some Philadelphia lawyers who were harping and splitting hairs about the banks. What you have just said about the very small losses of the banks through defalcations is a great credit to your employees; I presume that is the same for the other banks. Those employees who handle so much money are exposed to be wounded or killed by burglars through hold-ups—they are praiseworthy. I was surprised at the insistence of some members of the committee in giving the impression that there was something sinister about the hidden reserves of the banks. I consider bankers as honest and very useful citizens. I respect them, they are pillars of the state. It is very dangerous to destroy public confidence in our banks, which have stood for so long. And when I read a recent list that was published as an appendix to one of the reports I was struck by the fact that the banks had stood firm against the weather and storms for so many years. They compare very favourably with the banks of any other country. But what I cannot understand is that the same people who are criticizing the banks are very lenient on those who commit burglary and hold-ups. I was on the fourth floor, and I noticed the insistence of some members to give the impression that there was something wrong with the banks. Downstairs they were going to treat burglars and offenders and law-breakers like lambs and it struck me that there should be no double weight or double measure of policy with regard to the banks, whose staffs are law-abiding, and if there is something wrong with the banks, let those who have any complaint make charges and the banks will be in a position to answer. But until now I am satisfied with the administration of the banks and it is my duty to congratulate you.—A. Thank you very much.

Q. That is all.

Mr. BALCOM: Might I ask a question relating to Mr. Pouliot's questions?

The CHAIRMAN: Yes.

By Mr. Balcom:

Q. The banks do pay a living allowance at certain places, do they not?—

A. We do. I am not sure that it is the policy of all the banks, but we do pay a special living allowance to men stationed in large cities.

Mr. PHILPOTT: You gave us figures for male employees. Would you care to put the figures for the females on the record?—

The WITNESS: They are more difficult because of the very diversified work that they do. I have them here in bracket averages, not in exactly the same comparable form. One to three years, low \$870 and high \$2,600. For three to five years, low \$1,170, and high of \$2,600. Over five years, low \$1,480 and high of \$2,900.

Mr. PHILPOTT: You told me the other day that there were certain categories of women employees now getting more than men on the same job.

The WITNESS: I do not know that I put it exactly that way. I said that there would be cases where a female employee would be getting more than a male employee on a comparable job.

Mr. PHILPOTT: If we have equal pay for equal work, we will have to cut the women down.

The CHAIRMAN: Oh, no.

The CHAIRMAN: Mr. Noseworthy is entitled to the witness now. Then I have Mr. Fleming and Mr. Monteith.

Mr. NOSEWORTHY: Mr. Chairman, I wonder in view of the fact that the statements which Mr. Atkinson read this morning will not be available to us in printed form until possibly we have gone home for Easter, is there any possibility of getting mimeographed copies of those statements today?

The CHAIRMAN: For what purpose?

Mr. NOSEWORTHY: I think we could discuss this subject more intelligently if we had them before us.

The CHAIRMAN: The purpose in putting the statements on the record is the hope that you might read them between now and the time you return after the Easter recess. Mr. Atkinson will be here then.

Mr. NOSEWORTHY: I gather from what Mr. Atkinson said this morning that while in fact the banks are combines they are not covered by the Combines Investigation Act or section 498.

The WITNESS: You would not expect me to comment on that I am sure.

Mr. FLEMING: I would like to hear your comment on that.

The CHAIRMAN: That is not a statement of fact, Mr. Noseworthy. That is a point of view.

Mr. NOSEWORTHY: Was that not the substance of Mr. Atkinson's statement?

The CHAIRMAN: He was presenting the legal opinion of two eminent law firms, one in Montreal and one in Ottawa. I do not know why he missed Toronto. That is their opinion and he merely added that the banks had always been of that opinion. Nothing new was added to what already had been discussed.

Mr. NOSEWORTHY: My point is that there is no denial of the fact that they are combines.

The CHAIRMAN: The legal opinion said that they are not covered by the Act, and, therefore, are not combines. Only combines are deferred by the Act, and as they are not covered by the Act, they are not combines within the meaning of the Act. It is as simple as that. I am not giving an opinion; I am interpreting.

Mr. POULIOT: And you are a learned member of the bar of Ontario.

The CHAIRMAN: I am not operating in that capacity today.

The WITNESS: I think I should be allowed to say that there is only a very small segment of our business which is the subject of discussion between banks.

By Mr. Noseworthy:

Q. On that matter of service charges, is it not rather unusual that the banks should step up their service charges in the year when they are most prosperous in their history, when reserves and profits and every other phase of banking business is at a new high? Is it not rather unusual that today should be the time when charges to the depositors should be stepped up?—A. I think it should be remembered that we are paying out this year \$20 million more in interest to savings depositors than we did last year.

The CHAIRMAN: Mr. Quelch covered that point the other day. You will find that in the record.

By Mr. Noseworthy:

Q. How is it that the trust companies can pay $2\frac{1}{2}$ per cent on deposits and the banks only 2 per cent? I also understand that the trust companies give the privilege of issuing cheques. I see no mention of charges in their circulars. I have a circular before me from a trust company pointing out that they pay $2\frac{1}{2}$ per cent on savings account deposits and that checking privileges are provided and no mention is made of charges for that service. Would you clarify that business?—A. I think it is completely non-comparable for the simple reason that they do not provide anything in the way of comparable service to what the chartered banks do to the whole country. Our businesses are completely different.

Q. So that I presume if they did people would use trust companies instead of banks?—A. I do not quite get the purport of your question.

Q. If there services were comparable to the banks, then I suppose the public would use the trust companies?—A. If their services were comparable, they would have several thousand branches across the country serving the public.

Mr. POULIOT: Would you explain the difference between both services?

The CHAIRMAN: Take the example of a cheque issued from a trust company in Toronto and sent to someone in Vancouver, or to the member for Kamloops, for some legal work he did. Where is the difference between such a cheque and one issued from a bank in so far as cashing it or servicing it are concerned?

The WITNESS: I do not know where the man would cash his cheque in Vancouver from a trust company.

The CHAIRMAN: He could put it in his own account.

The WITNESS: If the trust companies are not represented across the country who would cash the cheque at an outlying point? That is the service which the banks provide in serving across the country.

The CHAIRMAN: He could deposit that cheque to his account in Kamloops and in the course of time it would be paid. Would there be an extra charge that the trust companies would impose that the banks would not impose?

The WITNESS: The trust companies are not in Kamloops.

The CHAIRMAN: He puts it through his own bank, the Royal Bank in Kamloops, and what do they do with it?

The WITNESS: Send it back to Toronto where it is drawn.

The CHAIRMAN: And finally credit his account with the amount of money?

The WITNESS: Presumably they would credit it at the time of the deposit less a service charge.

The CHAIRMAN: That is the point.

By Mr. Noseworthy:

Q. Yes. What extra service do the banks give a person who makes a deposit on a savings account that the trust companies do not give that person?—A. Of course, in one particular instance, it might be the same service, but I do not think I have made my point. If I could take the chairman's example, if a person has an account in a trust company in Toronto and wants to pay somebody in Kamloops it is the chartered bank who provides the service in Kamloops, and were the chartered banks not there I do not know just who would cash the cheque drawn on a trust company in Toronto. In other words, our business is to cover the country and provide a banking service, whereas a trust company is not comparable in that it is a localized business in one or two cities.

Q. I would like to ask a few questions, Mr. Chairman, if I may just to clarify the question of inner reserves in my own mind. I take it that certain amounts are transferred to the inner reserves against specific losses on securities, let us say, and are not taxed in the year in which they are transferred to inner reserves?—A. That is right.

Q. That is correct?—A. Yes.

Q. Providing the bank does not incur a loss on that specific security when it matures, then the reserve that has been set aside is transferred back?—A. It is transferred back to the general contingency account, which is covered by the minister's supervision.

Q. And is then taxed?—A. The tax is attracted if and when the general contingency account reaches the limit permitted by the minister and then any surplus must be declared as profit and is then taxed.

Q. There is no record available of the amounts that are transferred to and transferred from these inner reserves year by year?—A. That is not published. The Inspector-General of Banks inspects our books and reports to the minister.

Q. By what authority are they not published? Is it just that the banks do not want to give the information?

The CHAIRMAN: No, under the law that is the responsibility of the Minister of Finance and has nothing to do with the banks at all. The figures are entirely in his hands for use in accordance with the Bank Act.

By Mr. Johnston (Bow River):

Q. How often does it happen that the inner reserves are taxed because they are in excess of the amount required?—A. I believe there have been cases, but I do not know myself.

The CHAIRMAN: The answer was given by Mr. Elderkin and is on the record.

Mr. JOHNSTON (*Bow River*): Once; in 1943?

Mr. ELDERKIN: No; 1943, 1944 and 1945.

Mr. JOHNSTON (*Bow River*): Three consecutive years?

Mr. ELDERKIN: Yes.

By Mr. Noseworthy:

Q. There is no record to show what is the net effect, as far as taxes are concerned, to those transactions as to whether the federal government loses taxes or whether the contingencies offset any losses in taxation at the time they were transferred to inner reserves?—A. I think you are going beyond my province a bit, Mr. Noseworthy.

The CHAIRMAN: That will be a question that the minister will be prepared to answer when he comes before the committee. Mr. Elderkin is here to make note of such questions.

By Mr. Noseworthy:

Q. I want to come back again to the statement that Mr. Atkinson made, I think on Tuesday. You told us that a part of the bank's operations consisted of trading in the open market on securities?—A. On bonds, not stocks.

Q. I suppose there are specific reserves made against those purchases or the purchases of those securities—reserves which are set up against losses incurred on those?—A. If at the accounting date the portfolio within the trading department had a book value in excess of market value there would be a specific reserve set up against that difference.

Q. But if there is a loss incurred that loss is taken care of from the inner reserves?—A. Actual losses are a part of the year's operations and are taken care of in the operating profit of the bank.

Q. My point is, if there is a loss incurred by reason of that trading in securities, is that loss taken care of from the inner reserves which are set up?—A. If an actual loss took place in the trading account in the year 1953, let us say, that loss would be absorbed in the general picture of profit and loss for that particular year. Now, if there is a loss not consummated, and if the portfolio has a total market value at the end of the year less than the book value, then that difference would be set up as a specific reserve.

Q. In other words, since those specific reserves are not taxable, the government in fact loses a certain amount of taxes by reason of any losses the bank may incur by reason of its open trade?—A. No, in any business if you are trading for a profit you must inevitably, on certain segments of your business, at some time or another, make a loss, all of which flows into the general picture and at the end of the year you have made an overall profit or an overall loss.

Q. What I am trying to find out is whether or not the taxpayers recuperate the banks to any extent for losses incurred in those trade operations which in fact are not general banking business but are something outside of it?—A. It is recognized as part of banking business, and has been for many, many years.

The CHAIRMAN: Perhaps you would change your question and ask whether the treasury deals with losses and gains in the same way. It could work both ways could it not?

Mr. NOSEWORTHY: I presume it would work both ways. We have no way of telling because the figures are not available to us which would show whether the loss or gain is greater?

The CHAIRMAN: I think you should ask Mr. Atkinson if they benefit when there is a gain and if they suffer when there is a loss in the same way as the rest of us, which I presume is the case?

By Mr. Noseworthy:

Q. Is it in fact true that the treasury loses in the event of a loss?—A. In my judgment the treasury cannot possibly lose. Taxes may be deferred due to reserves, but that is true of every business.

Q. But if there is an eventual loss incurred, what is the situation?—A. I find it difficult to get over my point to you, Mr. Noseworthy. If a wholesale grocer is dealing in ten commodities, if he suffers a loss on the canned peas and makes a profit on the nine other commodities, at the end of the year he has net profit over all, and pays his tax on the overall, and it is simply the same with the banks. We cannot and do not in our statements segregate the various departments for profit and loss. We have a net overall picture of our business.

Q. But a certain portion of your profits are tax free? Do they go into your contingency reserves?—A. No.

By Mr. Cameron:

Q. They do not attract taxes at the time?—A. Yes, they do.

Q. Can you tell us in what circumstances they do attract taxes?—A. As soon as those reserves reach the limit beyond which the Minister of Finance will not countenance them, they are declared as profit and the tax is paid.

Q. Only on the part that is in excess?—A. That is right.

The CHAIRMAN: In accordance with the formula which was filed this morning.

By Mr. Noseworthy:

Q. If there is a loss, there is not tax paid on it?—A. I do not know of any corporation that pays a tax on losses.

Q. My point is that the Canadian government, by reason of the fact that the inner reserves are tax exempt at the time they are transferred, loses if there is a loss incurred in that transaction?—A. I cannot agree with that, Mr. Noseworthy.

Q. You do not agree with that?—A. Definitely not.

The CHAIRMAN: Mr. Fraser?

Mr. FRASER (*Peterborough*): Why are they not taxed in the year in which they are transferred?

Mr. CAMERON: Justification, I suppose.

The WITNESS: No corporation under the Income Tax Act pays a tax on the reserves which are permitted to that corporation in connection with its receivables.

By Mr. Noseworthy:

Q. Probably when we see your statement, we may be able to question whether there is really any necessity for those inner reserves. I will come back to a line of questioning that I was asking Mr. Towers, which was a little confusing to both the chairman and Mr. Towers. I take it that you are probably, shall we say, more intelligent than those gentlemen?—A. I cannot promise not to become confused.

Q. I was suggesting that when the government borrows from the bank, and deposits with the bank a government bond, no actual money changes hands in that action. The cost to the bank, as Mr. Towers pointed out, is the cost of handling the cheques which the government pays out against this sum and the interest on that portion of your cheques which go into the savings accounts. Would you agree with that?—A. No cash may be paid out, but we incur a liability to the depositor, or if the cheques are deposited in another bank we certainly pay out cash to the other bank.

Q. In actual fact there is very little actual legal tender that changes hands? It is almost all done by cheque and bookkeeping entry?—A. That is true of all business in Canada.

Q. But you would agree, then, with Mr. Towers that that is the only cost to the bank for that transaction?—A. Oh, no.

Mr. TUCKER: I think he meant the banking system, the banks as a group.

By Mr. Noseworthy:

Q. In what respect do you disagree?—A. The cost to the banks of the deposits created by the encashment of the government cheques would be two-fold. One part of it would attract interest if placed in savings accounts,

and there would be an interest cost, and, secondly, the cost of servicing all the transactions and the deposits, whether or not they attracted interest, would be there.

Q. The bank in the meantime derives interest from that bond which was originally deposited?—A. Whatever the government bond yields, we would get.

Q. Would the interest on that bond offset the cost of handling the transaction, the $1\frac{1}{2}$ per cent or 2 per cent interest that the bank pays on the savings in a savings deposit account?—A. Generally speaking, in normal times we would hope so. During the war years, in accordance with that statement which I read, I think there was some doubt as to whether it did cover the actual cost.

Q. In normal times, that being the case, the interest on the government bond would offset any expense incurred by the bank in servicing those cheques and paying interest on that portion which is deposited in savings accounts?—A. We would hope so. Otherwise, that particular transaction would show us a loss.

Q. Just where does the cost to the bank of that transaction come in?—A. There are very general costs about transacting business, about servicing both current and savings accounts, and so on. All the costs of doing business are increased by virtue of greater volume.

Q. They would not be covered by the interest collected on the bond?—A. I would hope that any transaction in normal times would more than cover itself.

Q. If they more than cover the whole cost, than what is the cost to the bank of doing that business? Is the government not paying for that interest, offsetting the charges of the banks?—A. As I say, our total costs of handling that transaction would we hope, be covered by the interest we received from the bonds which we had purchased.

Q. But when the bank has received, let us say, a \$1 million bond, the government has issued \$1 million in cheques against that bond. Do you consider that as money, those cheques?—A. That would in the normal course create further deposits, and deposits are regarded as part of the money supply of the country.

Q. Would you consider those as assets at all?—A. The bonds which we purchase from the government would be an asset. The deposits which are created by the proceeds of that bond become a liability of the bank.

Q. Would the government cheques that the bank receives be considered assets?—A. The government cheques? I do not understand the question.

Q. The government issues cheques against the account that has been set up. The bank gets those cheques from the government in addition to the bond?—A. The banks do not get the cheques; the government presumably issues cheques to contractors or people to whom they owe money.

Q. Those cheques come back to the bank?—A. On deposit to somebody's account. It is a liability of the bank, not an asset.

Q. Probably to some other bank, not to yours?—A. If they come from another bank, we would pay cash immediately to the other bank for them.

Q. Would you consider those as assets?—A. Cheques deposited are definitely liabilities of the bank. The minute the cheque goes to the credit of an account we have a liability to the owner of that account of that amount.

Q. In other words, you consider that all those deposits are liabilities?—A. Deposits are definitely liabilities. That is the amount of money we owe the Canadian public.

Q. In the event that the deposits are made in legal currency, are there any assets created there?—A. The cash in an asset so long as it is in our till, and the deposit is a liability. If a man deposits \$1,000 with us, we have the cash, but we owe him \$1,000.

Q. The question came up in 1944 at some great length that it might be profitable to the country if the government traded its borrowings from the Bank of Canada instead of the chartered banks. I recall asking Mr. Ilsley in 1944 why the government did not pursue that practice and his reply was that in that case every chartered bank in the country would be in the red. Would that situation hold true today?—A. I think you are beyond my province again.

The CHAIRMAN: Suppose you try that question on the Minister of Finance when he comes before the committee.

Mr. NOSEWORTHY: You think I had better reserve that question?

The CHAIRMAN: By all means. He is expecting it. Mr. Fleming, will you need more than 10 minutes? I want to give Mr. Fraser and Mr. Monteith an opportunity this morning.

Mr. FLEMING: I have just a few questions.

The CHAIRMAN: Very well then, Mr. Fleming.

By Mr. Fleming:

Q. Mr. Atkinson, the questions on the whole so far have been rather specific as related to individual aspects of banking or matters that might concern the members. But now I should like to direct a few questions towards the general aspects of banking and to invite your comment in general on the system. Let me ask you in the first place if you are satisfied in general with the existing structure of the Canadian banking system?—A. Yes.

Q. Are you satisfied with its operation in general?—A. Yes.

Q. I take it you are speaking both from the point of view of the banks and also from the point of view of the public whom you are obliged to serve if you are going to stay in business?—A. I would say that the general atmosphere is very satisfactory.

Q. Are there any specific changes needed, in your opinion?—A. I have none in mind whatever other than those which are contained in the bill which we are now considering.

Q. In general, as the banking system has grown—and I am thinking in terms of the business done through the banks, what one might call its turn-over—has the role of banker become any easier with that rather impressive growth in the extent of Canadian banking business over the years we have been speaking of to date?—A. In what respect do you mean? There is a great deal more work. My desk does not show that my job has become easier, if that is what you are referring to.

Q. Perhaps I have not fully conveyed my question to you. I think perhaps there is an impression going abroad that banking in these so-called lush years has become relatively simple and that the banker merely sits back and accumulates substantial earnings and profits. Your evidence this morning indicated that, I think, in relation to what one might call turn-over. Your proportion of profits is reduced as compared with your turn-over.—A. That is right.

Q. Has the task of the banker in general, in relation to the economic system and in relation to the public, become any easier in these so-called lush years?—A. The conduct of a loaning business, I suppose, is less wearing in so-called lush times, easy money periods, than it is in bad times. Certainly I think it would be fair to say that the job of the banker today is far less worrisome than it was in the bad thirties. On the other hand I think that

bankers are very conscious of the fact that periods of prosperity are dangerous loaning periods and that they must be on guard against being carried away and becoming too optimistic in their loaning business.

Q. The assumption that the boom might go on forever is the thing that you have to be on guard against?—A. History has not proven it.

Q. Mr. Crestohl asked you certain questions yesterday in relation to competition between banks, on the one hand, and what seems to be a tendency towards greater uniformity among banks as to proper accounting practice, methods and so on. You stated that you thought competition had never been keener among the banks at any time previously than it is at the present time. I wonder if you would mind enlarging on that. Does that keenness of competition existing today affect any particular aspects of the banking business?—A. I was referring particularly to the desire of the banks to build up their own business and to compete for what business there is in the country and for new business coming to the country.

Q. I am trying to assess how far that statement about competition may be applied. I take it that there is very keen competition among the banks for good loans, seeing that that is their principal source of profit.—A. Yes, that is part of it; but competition is probably keener still for deposits, because those are the life blood of the bank.

Q. And what about the establishment of new branches and the extension of the system?—A. That is also the scene of very keen competition, the watching for all possible locations for new and profitable business in an effort to be the first in the field. That is constantly before us.

Q. Do you recall the war years when the government interfered with the extension of the branch system, and the interference actually led to the closing of a number of branches and the virtual prohibition on the establishment of new branches. Since the war years, I take it, there has been, as between the banks, keen competition to enter new fields and build new branches.—A. That is right. There has been quite a large program of branch bank extension, yes.

Q. And the competitive nature of the Canadian banking system in that respect has enabled it to recover from the interference that was imposed upon it by the government in those war years?—A. It is absolutely free of interference. Today there is no restriction on opening of branches.

Q. The matter of consultation which arose in the evidence related only to the matter of service charges on savings accounts. You said this morning that the area of consultation was quite limited?—A. It is only a small segment of our business, yes.

Q. Would you enlarge on that and indicate to us what is the type of subject that is a matter of consultation between the banks in relation to policy?—A. I would find it very difficult to cover the conversations that take place.

Q. I was thinking of the type of matter that might be discussed. If it is difficult to give an exhaustive comment on it, this matter of service charges was one; is there anything else?—A. That is primarily what happens. The desire to provide uniform services is we think for the good of the public and business generally so that people know in all parts of the country what the banking service is going to cost them.

Q. Are there no other examples that come to your mind where there has been consultation among the banks with relation to banking policy?—A. There are many conversations that take place to carry out the charter of the Canadian Bankers Association, which has as one of its objects the efficiency of banking.

I would think primarily—probably not primarily—but one of the most important aspects of our conversations together is to promote general efficiency and service to the public?

Q. What matters, for instance, might bear on that question, Mr. Atkinson?—A. The uniformity of its charges is one. We have a cost committee which goes into our costing to determine what the costs of various services may be; that is a general service rather than each bank having a cost committee of its own. We have a cost committee of the association to which the banks turn in their expenses and that one committee attempts to arrive at a common cost and is a guide to us in setting the best and lowest possible service charge.

Q. What consultation, for instance, is there with a view to arriving at common policy with respect salaries of staff?—A. None. That has always been one thing not discussed.

Q. Or loan terms?—A. The loan term discussions have been primarily confined to discussion with government for certain types of loaning business where the government is fixing the rates themselves. We have in many cases discussed those with government persons in arriving at things like farm or home improvement loans and what is the proper rate. There was long consultation in trying to establish what that business would cost.

Q. It is quite evident that the field of consultation is very limited and the area of competition is very wide and very keen?—A. I think there is no question about that statement.

Q. The next question is about the relations of the chartered banks on the one hand and the government on the other. We heard the evidence of Mr. Elderkin the other day. He spoke of the cooperation the banks give him. Have you any comment to make on any aspects of the type of inspections or regulations, if you would like to call them that, on the part of the government through Mr. Elderkin's office over or in relation to the banks? I am thinking broadly there. One might think of these rules with regard to the determination of inner reserves.—A. Even if Mr. Elderkin were not present I would still say it is a very happy relationship.

Q. Have you any specific comment to make with respect to the rules for determining the inner reserve of Banks?—A. No. That is satisfactory to the banks. Certainly to the bank I represent.

Q. You think that the rules are fair?—A. Yes.

Q. Fairly interpreted and applied?—A. Yes, very satisfactorily applied and fairly interpreted.

Q. Next, with respect to relations with the Bank of Canada. So far as the Bank of Canada is concerned and any form of supervision over the banking system of the extent to which its existence and operations have in any way restricted what was, prior to its establishment, the field of the chartered banks, what comment can you make as to the relations of the chartered banks on the one hand and the Bank of Canada on the other in this respect?—A. Once again I would have to speak personally, but I have no hesitation in saying our relations with the Bank of Canada are pleasant and very helpful to the chartered banks. We have occasional meetings with the governor where the economic situation is discussed, and where he lets us have his views with regard to public policy primarily as applied to loaning for the good of the country as a whole. Those discussions are free, frank, and certainly helpful to the banks.

Q. I take it that you have no criticism to make of the general relationship established by law and practice today as between the central bank on the one hand and the chartered banks on the other?—A. No criticism whatever.

Q. In these discussions with Mr. Towers, I presume there is discussion in relation to monetary policy being followed by the Bank of Canada?—A. I cannot recollect that the governor has ever told us what monetary policy they propose to follow, and I do not think we would expect him to do so.

Q. I was not suggesting that he would let any government secrets out of the bag.—A. But, we have a full and frank discussion of the economic situation and he tells us and gives us his reason for asking us from time to time to pursue certain loan policies. That discussion is always quite frank.

Q. That, I take it, is in cases such as Mr. Towers referred to where a definite policy has been decided upon by the bank, presumably in consultation with the government, in the field of monetary action for instance to restrict and expand credit, and when the policy is decided upon consultation is held between Mr. Towers and the banks with a view to outlining the policy and ensure effective implementation?—A. Yes. One has in mind most particularly the 1951 situation when it was necessary to restrict credit. That policy was adopted as a result of quite a long discussion with the Bank of Canada.

Q. Well, now, in that situation, or in any other you may choose to take as an example, what is the position of the Bank of Canada? Is it one of announcing to the chartered banks when a definite policy has been decided upon and inviting the banks to comply, or is it a matter of seeking cooperation in relation to policies in which the chartered banks have a very direct interest and of trying to arrive at a good result by cooperative consultation?—A. Well, the consultations usually commence with the governor disclosing to us the overall economic picture of the country, because he obviously has possession of a great deal of information on the general economic conditions that no one particular bank would have. After telling us what the situation is and the implications of it, in a situation like that of 1951 he asked for the cooperation of the banks in holding the line of existing credit at that particular point and that cooperation was gladly forthcoming.

Q. I take it from your answer that all the banks readily gave all the cooperation that he asked for?—A. I am perfectly sure I am correct in saying that there was no hesitation on the part of each bank in saying that it would be glad to cooperate.

Q. In a situation like that, do the banks scrutinize the actions of one another to make sure that there is some uniform measure of response to Mr. towers' request for cooperation?—A. Yes. Competition being what it is—I remember following that in the early days of that policy. I had many conversations with fellow general managers because either I felt that they had taken business from our bank by not following the policy, or they in turn felt that we had neglected to follow the policy and as a result certain accounts would come to us. That did take place until the policy was reasonably well established. It is one of those natural things which is bound to happen.

Q. But in the end do I understand you were satisfied that your competitors worked out a fairly uniform response to the appeal of Mr. Towers for their cooperation?—A. Oh yes, and I think the results show it because the total credit outstanding was brought back to the target.

The CHAIRMAN: I know you have some questions to ask, Mr. Crestohl. How long do you think you will require?

Mr. CRESTOHL: Just a few minutes, but let Mr. Fleming carry on.

By Mr. Fleming:

Q. May I ask you now specifically, Mr. Atkinson, what your view is in relation to the proposed increase of minimum cash reserves from 5 per cent to 8 per cent on Canadian dollar deposit liabilities? I take it that this is

simply bringing the law a little closer to existing practice. Am I right in that?—A. That is hardly correct, Mr. Fleming. The law has had, up until now, an inflexible 5 per cent reserve stipulated. This will provide the central bank with the power to vary the reserve in accordance with the economic requirements.

Q. You are satisfied to approve of this proposed greater measure of flexibility?—A. I am quite in accord with it, personally.

Q. Are there any of your competitors among the banks who are not?—A. I think you would probably have to ask the competitors about that, I do not know. I do not know of any. Of my own knowledge, I know of no great complaint against it.

Q. I take it you are not in a position to speak for them in reply to that question?—A. No, I could not possibly speak for them.

Q. There has been mention of interest rates largely in relation to the matter of these new service charges on saving accounts. I would like to ask about another aspect of that matter. What is the reason for the increase in the present rate of interest on savings accounts?—A. It was a feeling on the part of one or two banks that the general interest structure of the country called for some higher rate to be paid on savings and I think that view was supported, or probably originated, by the fact that profits have been quite satisfactory and we felt that the time had come when we should give consideration to paying the savings depositors a slightly higher rate of interest.

Q. Was there a hope of increasing the volume of savings deposits in this way?—A. I do not remember that that entered the discussion to any great extent.

The CHAIRMAN: Were the trust companies giving you some keen competition? I can see that Mr. Fleming and Mr. Fraser were both going to ask that question.

Mr. FRASER (*Peterborough*): Yes.

Mr. FLEMING: Yes.

The WITNESS: Trust companies always give us keen competition.

The CHAIRMAN: Was the raise related to the keen competition from the trust companies?

The WITNESS: No, we were quite satisfied that the trust companies would raise their rate when we increased ours, and that very thing happened within 24 hours.

By Mr. Fleming:

Q. You raised your rate first?—A. Yes, and immediately after very many trust companies announced a like increase in their rates.

Q. I take it you do not expect any increase in the volume of savings deposits as a result of the increased interest rate?—A. Not other than the normal increase which we would anticipate in any event.

Q. May I ask you about the authority of your local branch managers in reference to granting loans? Is there any uniform policy regarding the limit of the authority of the branch managers in regard to loans?—A. Do you mean within one bank?

Q. Yes, take one bank first?—A. There is no uniform policy within our bank. It is dependent upon how we rate the loaning ability of the manager and of course it has very great reference to the type of loan of business at that particular point, and to the volume of it.

Q. Could you give the committee some idea of the range within the authority of local branch managers?—A. Within the Royal Bank, the range is from \$1,000 to \$10,000.

Q. \$10,000 is the maximum?—A. Yes, \$10,000 is the maximum which any manager has on his own authority without reference to higher authority.

Q. What has been the trend in recent years?—A. Greatly increased. I can remember that not too many years ago our highest maximum authority was \$5,000.

Q. May I ask a question on the human side? You referred this morning to a very creditable record indicating that in 1953 the extent of defalcations on the part of employees in the Royal Bank was less than \$10,000. What has been the trend?—A. I have not got figures which go back very far, Mr. Fleming, but I would say from day-to-day experience the trend has been sharply downward in recent years.

Q. Has that experience come from all the banks?—A. That I do not know.

Q. Do you associate that with the improvement in the salaries paid by the banks or to a more careful selection of the members of the staff who are handling money?—A. It has, I assume, something to do with the increase in level of salaries, but it might be of interest to the committee to know that in our particular bank, when we brought in a very comprehensive policy of sickness and accident coverage which we had not had before, there was a very sharp decline in defalcations.

Q. I take it that you attribute that decline to the introduction of the benefits you mentioned?—A. I personally believe that a great many defalcations were due to the fact that a man getting sharply in debt through sickness or accident in his family was placed under strong temptation to try to meet his outlays when he had not the necessary funds.

The CHAIRMAN: You could stop there. It is a very useful statement. The country will be glad to hear it.

Mr. FLEMING: I have not quite finished, Mr. Chairman.

The CHAIRMAN: He will be back this afternoon. Adjourned till 3.30, gentlemen.

AFTERNOON SESSION

The CHAIRMAN: Gentlemen, I see a quorum. Mr. Fleming.

Mr. T. H. Atkinson, President, The Canadian Bankers' Association, recalled:

Mr. FLEMING: Mr. Atkinson, just before the luncheon adjournment you were describing the beneficial results that you attributed to the effects of your scheme of health and accident insurance.

The CHAIRMAN: I thought he mentioned other benefits too. I am not sure.

By Mr. Fleming:

Q. Would you just indicate what other benefits have been introduced for the benefit of the staff? You indicated earlier increased remuneration. Could you indicate any others that enter into the question of the relations between banks, on the one hand, and their staffs?—A. We have a substantial group insurance coverage, which I mentioned last Tuesday, where each male member of the staff is covered for two years' salary, one of which continues to death and one of which stops at the age of 65 years. The group policy becomes payable if the man becomes incapacitated at any stage.

Q. Is that the complete answer?—A. Those are the major things that I can think of at the moment.

Q. Was your answer applicable to the Royal Bank or to all banks?—A. To the Royal Bank only. That is the only one of which I have knowledge.

Q. Could you say anything about similar steps on the part of other banks?
—A. No, I have no knowledge of what schemes the other banks have.

Q. What has been the effect on turnover in the staff, particularly junior staff, as a result of the introduction of these measures?—A. I think that is one of those things you cannot estimate, Mr. Fleming.

Q. Can you isolate that particular factor?—A. You could not know what the turnover would have been had that not been done.

Q. What has been the trend in turnover in the last couple of years?—A. I am afraid that I would have to look at that, Mr. Fleming. As compared, you mean, to a past period?

Q. We know that the turnover was very high a few years ago.—A. The turnover of male employees has slowed down, but to what percentage I would not like to say without a figure, and I think that is one thing that we have not brought with us.

Q. A final matter, Mr. Atkinson. You gave us a very pleasing picture this morning about the very limited and diminishing extent of defalcations on the part of employees. What is the experience of the banks, on the other hand, with reference to the kind of offences with which they are principally concerned, namely, forgeries and counterfeit?—A. They are substantial in number, but not too serious in amount. Our losses through forgeries, bad cheques and notes and such things are, I would say, in the high five figures per annum.

Q. High five?—A. Showing a tendency upward slightly.

Q. Would you mind explaining that formula?

The CHAIRMAN: Just one minute, Mr. Fleming. Mr. Atkinson is now speaking for the Royal Bank. We are putting him in a difficult position since he does not now speak for the Bankers' Association. The other banks might not be asked to produce the same material. He has no objection to doing it, but is it fair to him?

Mr. FLEMING: I am not concerned about particular figures of your bank. I am more concerned about the trend and about the over-all extent of the problem.

Mr. CRESTOHL: Otherwise he might indicate that his bank was an easy mark.

The CHAIRMAN: Let us deal with trends.

The WITNESS: I think I could say that the trend has been increasing and is a very annoying situation, but from a monetary standpoint not too serious.

By Mr. Fleming:

Q. You are speaking for all the banks?—A. No, I am speaking for only the one bank that I know. I have no information whatever about that type of thing so far as the other banks are concerned.

Q. One last question about staffs. Have the banks departed completely from the old practice of supplying living accommodation for their junior staffs living away from home?—A. So far, once again, as my own bank is concerned, there are a few points where living accommodation is provided for the junior staff. The policy is against it, but there are certain places where it has to be done owing to local conditions.

Q. Why is the policy against it?—A. As a matter of fact, so far as our bank is concerned, there never was a policy of supplying living accommodation for junior staff, at least not to my own knowledge, apart from certain local points where it became necessary.

Mr. MONTEITH: Mr. Chairman, I do not like to belabour this question of inner reserves, but I would like now to ask a few questions to compare the whole over-all picture to that of private business. Mr. Atkinson, in a private business, we will say—just to take an amount out of the air—that they have

accounts receivable of \$100,000. It is logical that the Minister of National Revenue for tax purposes will allow some reserve against that at the end of the year. For my illustration I will take \$10,000 as the reserve as at the end of 1952, and during 1953 this particular firm has had a \$2,000 bad account crop up that has been written off against the reserve. At the end of 1953 it is still considered that the reserve should be at \$10,000. So the reserve is increased to the \$10,000, resulting in a \$2,000 charge to profit and loss. That would be the extent of the matter during that year. Now, let us say at the end of 1953 it was felt that the reserve should be \$12,000 then there would be a charge to profit and loss of \$4,000. Let us say it was felt that it should only be \$8,000. Then there would be no charge to profit and loss. The write-off would be against that reserve, the write-off of \$2,000. Do I understand it correctly then, that at the end, let us say, of 1952, for argument sake, your total reserve according to the formula was \$10 million, to take a figure out of the air; during the year 1953 you did have a \$100 million loan go bad, and it is written off against the specific reserves. Am I right in that?

The WITNESS: That is right.

By Mr. Monteith:

Q. All right. We come along to the end of that fiscal year and your write-off is \$100,000; and at the end of that year it was felt that your over-all formula again resulted in a \$10 million reserve. Would that not result in a charge to profit and loss for that year of \$100,000?—A. Practically, yes.

Q. And let us say your over-all formula resulted in a reserve, a total reserve of \$11 million; there would then be a charge of \$1,100,000 to profit and loss?—A. On a transfer to the contingency reserve, yes.

Q. And if it were felt at the end of the next year it would only require \$9 million, there would be a credit to profit and loss of \$900,000. Is that right?—A. Yes. The annual earnings of that year would be increased by a transfer from contingency reserves.

Q. By the lowering of that requirement?—A. That is right.

Q. These figures I just mentioned as going into profit and loss would be taxable?—A. It would become a taxable profit the same as the profit for the year, yes.

Q. I think that is all I have on that. I was just wondering if many manufacturing concerns borrowed under section 98?

The CHAIRMAN: You mean section 88, do you not?

By Mr. Monteith:

Q. Section 88, yes.—A. Yes.

Q. And just what security is there under this section for the banks?—A. Well, the security is the raw materials being used in the manufacturing process and the manufactured goods when they are completed, and that type of thing.

Q. Yes; and on top of this you take accounts receivable and in a lot of concerns you take directors' guarantees and so on?—A. It is not unusual to take guarantees as well as section 88 security. Each case of course is dealt with on its merits and in many cases a guarantee is not considered necessary, while in other cases it is.

Q. There are many instances, however, where actually you do have accounts receivable and section 88 security and directors' guarantees as well as life insurance and so on?—A. All those things may exist in one account.

Q. In the over-all picture does section 88 operate entirely satisfactorily from the bank's standpoint?—A. Oh yes, I think I could say generally that the banks like to operate a section 88 type of account.

Q. Do you think it is entirely satisfactory from the borrowers standpoint?
—A. Fortunately I have never been a borrower.

The CHAIRMAN: Lucky fellow!

The WITNESS: But we get no complaints from borrowers that they do not like section 88 or at least I have no recollection of having any borrower complain.

By Mr. Monteith:

Q. Have you had any clients who lost money through bankruptcies who have complained?—A. That occasionally happens, yes.

Q. Unsecured creditors, could they not be left “holding the bag” especially in the case of section 88 which we are talking about where somebody is out “to do” somebody financially?—A. I think that history will possibly show that in most bankruptcies, where the borrower is using section 88, it is likely that the unsecured creditors will come off rather badly by the very nature of the operation, and the fact that the security for realization in the hands of the bank seems to deteriorate very much in value very quickly. The unsecured creditors in such an account, and in the event of bankruptcy are frequently in a bad position.

Q. Let us say you did have a note of a director. I am talking about a hypothetical case; let us say the bank had a note, and section 88, and other security, and so on; and the inventory was at such and such a figure, not enough along with accounts receivable and other securities to cover the loan so that if this party did go bankrupt the guarantor was going to be called upon. Let us say he was one of the officials of the company. Is it quite possible that he might order a shipment or get additional inventory in, and that afternoon go into bankruptcy and get out from underneath his guarantee in that way?—A. It would be a very regrettable occurrence but I suppose it could happen.

Q. I understand there is some protection against that in the Province of Quebec?—A. You mean the right of revendication. It has been mentioned, but in my experience I have never seen a case where it was invoked. I think there may be some misapprehension about how widespread that right of revendication is. In the case of a man who ships goods to a manufacturer on credit the right of revendication does not exist. It is only available where the goods are shipped for cash, and if the goods can be traced and are found in exactly the same condition as received by the manufacturer. That is the only case I know of in the law where the right of revendication exists.

Q. I am not sure about the law, but I think the effect of it is that the goods can be identified as far down as receivables, and that the right of revendication does exist.—A. Yes, but they must have been sold for cash. In other words, the shipment must have come in, and there must have, generally speaking, been some delay on the part of a man in getting his cheque and getting it into his own bank, or something of that nature. And if it is sold, let us say, on thirty-day terms for instance, he has no right of revendication.

Q. It is up to the supplier to look after himself in that matter?—A. Yes, and I might say that for the protection of the supplier section 88 security is registered. In other words, he has knowledge, or at least knowledge is available to him that the man to whom he has shipped is operating under section 88 of the Bank Act and that the bank concerned has security on the inventory so that it has prior interest and he is shipping these goods with his eyes open.

Q. At his own risk?—A. At his own risk.

The CHAIRMAN: The fruit and vegetable people have asked to be heard by this committee. We will decide whether or not we will hear them, but that is the point they are going to make. That is exactly the point you are making now.

Mr. MONTEITH: Yes. Well, in that case I have nothing further to say other than that you do not feel there is any undue hardship at the moment to an unsecured creditor if he looks after himself as he should?

The WITNESS: There is nothing that can happen to him that he cannot foresee; or at least he has the information in advance that certain risks are there; therefore he is in a position to assess the risk which he is taking.

By The Chairman:

Q. Mr. Atkinson, in actual practice can we say that the man who is shipping, let us say, tomatoes or some other vegetable would know that the banks held a blanket assignment under section 88 unless he made it his business to find out?—A. No, unless he inquired, of course. Nobody is going to go to him and warn him. But the information is available.

Q. Yes. The information is available at the registry office.—A. That is right.

The CHAIRMAN: In actual practice he does not search out that information. He relies for all purposes on the credit and stability of the person to whom he ships and then wakes up one morning and finds that legally section 88 has taken precedence. That is what has happened and that is what they are complaining about.

By Mr. Monteith:

Q. Might I just ask one more question on that line? In the case of an unsecured creditor making a shipment and being caught in that manner, does the bank ever reach a saw-off of any nature with such a creditor realizing he has some moral right to something when a shipment has just arrived?—A. I would think that that would be an impossible question to answer. It could have happened; I do not know. At the moment I cannot think of any case that I could quote. Might I interject something, Mr. Chairman?

The CHAIRMAN: Yes.

Mr. CRESTOHL: It would be a case of "caveat vendor" instead of "caveat emptor".

The WITNESS: From the bank's point of view in almost every case of bankruptcy the goods which were shipped into the manufacturer have incurred expense in the way of manufacturing charges which the bank has advanced, so that the goods once in the possession of the manufacturer are not necessarily all a risk of the shipper. The bank has taken the risk of some expense, as in unpaid wages, which flows into the manufacture and takes prior right over section 88 security.

By Mr. Monteith:

Q. I think that that is all, except might I ask Mr. Atkinson this: in all your dealings with the government in the way of securities loans, or loans with borrowers, or with depositors coming in and depositing money, for every asset that appears there is a liability? I am not talking about earnings. Just in each of these transactions there is always a liability for every asset?—A. I am afraid that is why the balance sheet always adds up the same on both sides.

Q. The only difference there would be in the shareholders' portion of the assets would be the net earnings at the end of the year?—A. That is right.

Mr. MACNAUGHTON: There is a very interesting article on that subject in the last issue of the Canadian Banker.

By Mr. Crestohl:

Q. I was very pleased to see you put on the record this morning those legal opinions from two such eminent counsels whose opinions, of course, we regard and go along with. I think, however, that we should further clarify that opinion and the matter involved by eliciting a little additional information. You spoke this morning of consultations you had from time to time with the Governor of the Bank of Canada and the Inspector General. Could you tell us whether during those consultations you discussed the question of the charges for cheques on savings accounts, for example?—A. I think the answer to that is no. I have no recollection of such a discussion.

Q. When you decided to increase, say, the rate on deposits, did you discuss that with the Governor of the Bank of Canada or with the Inspector General?—A. I do not know about discussion. I think I am safe in saying that both knew of the prospective move.

Q. Then, let us go along for example to the question of charges for operating a current bank account. Did you clear it with them? Did you obtain their consent or ask their advice or directions?—A. No.

Q. I suppose the same thing would apply to the question of collection charges?—A. I think that is regarded as a chartered bank matter rather than a subject for consultation with others.

Q. I go along with what Mr. Pouliot said this morning that the banks in Canada, of course, are doing a magnificent job and we regard them as public service corporations and as such I would like to put this question to you and I would like your answer: would you not agree that, like the other public service corporations whose rates and charges are reviewed by commission or by government authority, it would be in the best interests of the banks and the people of Canada that any arrangement by the banks to fix charges of a nature that tend to uniformity should first be approved by either the directors of the Bank of Canada or by the Governor of the Bank of Canada, or by the Inspector General of banks, or by some other independent authority?—A. I do not think I should be asked to comment on that, Mr. Crestohl.

Q. What would be your opinion—I am thinking now in terms of safeguarding the position of the banks, because the whole issue that is apparently raised by my questioning is rather delicate and is a borderline question as to whether or not there is uniformity and whether or not there is a pre-arrangement among the banks, and I would like to dissipate that, and in order to dissipate that I think you would be well advised—I am only suggesting it—to sit down with the board of directors of the Bank of Canada, who I think would be impartial in a matter of this kind, and clear with them and say: this is what we would like to do and these are the reasons for it. I believe that they would be helpful to the banks in the same way as are the Board of Transport Commissioners or any of these other public bodies. I say this only because there was this delicate situation and because the banks are in a measure a public service corporation as such.—A. That raises such a completely different situation in the matter of operations that I would like to take notice of that question and submit something at a later date if I may.

Mr. CRESTOHL: That is quite all right.

By Mr. Crestohl:

Q. There are a few additional questions on another tack. We were discussing this morning the competition which the trust companies give you. Could you say a word about the competition which small loan companies give you?—A. I would think that it is safe to say we hardly regard the small loan companies as competitors.

Q. I am much concerned with the operation of these small loan companies. In what way do they lend money differently from recognized chartered banks?—A. Basically they lend money against chattel mortgages which we are not permitted to do. Therefore they have a security available to them whereas we have not.

Q. I am afraid my question is influenced by Quebec law where chattel mortgages are not permitted, and I was wondering why they can charge interest at rates that the banks do not and why people should go to them and not to the banks?

The CHAIRMAN: I thought we might discuss that with Mr. MacGregor at the appropriate time.

Mr. CRESTOHL: Just as you say.

By Mr. Fraser (Peterborough):

Q. This morning Mr. Noseworthy mentioned the trust companies, and he said that in their advertising they did not mention charges on cheques. I checked at noon with a friend of mine, and asked what the charges were on cheques in the trust companies, and he said that if the balance in the trust company was less than \$200 then there was a charge of 5 cents for every cheque, and of course there would be a limit on that, and no charge over \$200, but the trust companies definitely do make a charge on cheques the same as banks do.

Now, your banks, as well as practically all the chartered banks in Canada, do business outside of Canada in South and Central America and other places. Do you have much difficulty in getting your cash or securities out of these countries or do you have to deal through the government to get it?—A. Do you mean in order to get our profits home?

Q. Yes.—A. At the moment there is only one country where we have not been able to get our profits home, and that is the Argentine.

Q. Of course, that has been that way for some time?—A. Yes. I think, speaking from memory, it has been that way for about 7 years.

Q. That is what I was thinking. I was down there and I remember I had a difficult time getting some cash out myself. When you are doing business in those foreign countries what security do you have to put up in order to start your bank there?—A. It varies from country to country. Generally speaking, they have a capital requirement and many of them have within the past two years increased that capital requirement—the capital you must place before you do business.

Q. And does that have to be in their bonds or in gold?—A. Generally in cash. Generally it must be remitted.

Q. It would be in gold?—A. No, in exchange. For instance, if you want to operate a bank in Peru, Peru would say you need so much capital which you would buy in the ordinary foreign exchange market and remit.

Q. On Tuesday, if I remember rightly, you said the male employees of the banks were called officers?—A. That is the usual term, yes. We call all our male employees officers—junior officers, senior officers, and so on.

Q. Do I understand correctly that a female in a bank could not become an officer, or am I wrong?—A. We have no instance where a woman has been appointed to a named position.

Q. Then they can never become officers?—A. Never is a long time—they have not yet.

Q. Mention was made of the withholding tax on coupons and you said that you got a commission from the government for collecting that 15 per cent withholding tax?—A. Yes, that is right.

Q. Have the United States banks got the same agreement with their government as you have here or was that in the convention?—A. You mean as to getting a commission for collecting it?

Q. Yes.—A. I could not say, Mr. Fraser, I do not know.

Q. You said yours was $2\frac{1}{2}$ per cent?—A. No, one-eighth per cent of the amount of tax we collect. I think you were referring to the $2\frac{1}{4}$ cents which is the commission for ownership certificates and which is a completely different thing, of course.

Q. Yes, that is right.

Mr. FLEMING: $2\frac{1}{4}$ cents per certificate?

The WITNESS: Yes.

Mr. FLEMING: Not per cent?

The WITNESS: No.

Mr. FRASER (*Peterborough*): Yes, $2\frac{1}{4}$ cents, not per cent.

By Mr. Fraser (Peterborough):

Q. How do the banks divide up the charges in regard to clearing houses—the expense with regard to clearing houses?—A. I think I am safe in saying it is a proportion of the total assets. That is the usual way of dividing expenses. That could vary in some clearing houses. There are quite a number of them. I have not looked at the regulations, but that is the normal method.

Q. It is not in the amount of business in each?—A. I have been a long time away from that end of the business.

Q. Is it the volume going through the clearing houses?

Mr. ELDERKIN: I believe so.

By Mr. Fraser (Peterborough):

Q. I am right in saying it is the volume of business?—A. It may be. A great many of our expenses are divided on the basis of total assets, such as association expenses. I am told that the clearing house expenses are divided on total volume.

Q. That is, the total volume of money represented in the total volume of cheques?—A. The total volume of cheques I assume.

Q. The total number of cheques? Under your agreement with the government on income tax concerning their officers going into the bank, do they also have access to deposit boxes?—A. I have never known of a case. I suppose if they went through the proper legal formalities, the government being all-powerful could have access to a box. I have never heard of it.

The WITNESS: They would have to go through the proper legal formalities.

By Mr. Fraser (Peterborough):

Q. They would need the proper legal form?—A. Oh definitely.

Q. I do not know if the question was asked before, but in regard to foreign exchange, do the banks find it better to have a fixed foreign exchange or a free exchange—that is, with the United States, let us say. When it was set at 10 per cent and you knew exactly what it was, was that better for your business or is it better the way it is now when it varies day by day?—A. I think a banker's opinion is that it is more preferable to operate in a free supply and

demand market. From the point of view of actual earnings, I am doubtful if that is the case. I think the bank profits would be probably somewhat higher if they were working on a fixed rate.

Q. Thank you, Mr. Chairman.

The CHAIRMAN: I am going to ask Mr. Atkinson to stand down for a little while. I would like the committee to hear Mr. Neil J. McKinnon, the general manager of the Bank of Commerce, who carry on a small loan business, he has a brief. It would be quite unfair to have the brief presented in piece meal fashion.

Mr. TUCKER: Before Mr. Atkinson leaves, there are one or two things I would like to ask him to be prepared to answer when he comes before the committee again. The first matter is the question of the cost of the banks doing business. I understood you to say in your evidence this morning that it was thought that the cost of doing business was around three-quarters of one per cent, and therefore that is the rate at which you gave short-term credit to the government so that you were not making any profit on it. You say you make studies of the cost of doing business, and I was wondering if you could give us figures as to what you believe the cost of doing business is?

The WITNESS: I will take notice of the question, Mr. Tucker.

Mr. TUCKER: And then, when you are answering the question put to you by Mr. Crestohl, I would ask you to bear in mind what is done in regard to the regulations of grain companies and the various charges that they make. They are regulated by the Board of Grain Commissioners. In other words, they are private corporations doing work for the public somewhat the same as the banks are, and in regard to rates of charges they must get permission from the Board of Grain Commissioners. I would just ask you to bear that in mind when you are preparing your answer.

I do not know to what extent you dealt with the question as to what degree you have continued to provide the government with credit on a short-term basis at a very low rate. You did it to a considerable extent during the war, and I am wondering to what extent that has been continued or discontinued.

Also, I wish that you would deal with the attitude of the banks in regard to cash reserves. I have suggested it would be a good thing to raise the reserve requirements in Canada to the level that they are in the United States, and I would like to know what the attitude of the banks would be towards that suggestion. Finally, I wish you would deal with the effect upon your profits of the maximum rate of interest chargeable under the Bank Act being reduced from 6 per cent to 5½ per cent and also to 5 per cent. I would like to know what the effect would be if either rate was set?

The CHAIRMAN: Do you mean the effect on all the banks?

Mr. TUCKER: Yes.

The CHAIRMAN: It looks as though you are going to have a busy Easter, Mr. Atkinson!

The WITNESS: Something to keep us occupied.

Mr. Neil J. McKinnon, General Manager, The Canadian Bank of Commerce, called:

The CHAIRMAN: Gentlemen, the brief you have before you will be inserted in the record. Rather than have it read to you, Mr. McKinnon could give you the highlights, and then you will have a few minutes to ask him questions.

(See Appendix "C")

The WITNESS: Mr. Chairman, the first two pages of this brief convey an introduction to the plan. It is a historical review, telling how it was originated, the considerations that prompted the bank to bring this service into effect, and

the manner in which it was done. I am skipping over the introduction because that is available for everyone to read and I think it is reasonably well known to many anyhow. Page 3 of the brief gives a concrete example of the method of operation. Perhaps you could look at examples cited there. It shows a loan for one year and the amount of discount taken off, and the net proceeds to the borrower. It indicates that deposits are made monthly in a savings account and when they accumulate to the equivalent amount, the loan is paid off through the proceeds of the savings account. There are no service charges except when a borrower desires to extend or enlarge a loan before maturity, when a borrower desires to extend or enlarge a loan before maturity, when a service charge of \$1 is normally made to offset in part the cost of the additional work. There are not many cases of this kind. The gross revenue from this source is shown in succeeding pages. There is a reference also to the interest in the "effective rate of interest" that has been shown by the committee in the past, and our conclusion there is that the best way to show it is to show that the average yield on loans since the inception of the plan was 10.46 per cent. There is also an outline of the life insurance that is provided. The policy is carried by an insurance company. The charge is paid by the borrower. The insurance company carries the risk and advises of the cost from time to time. This cost is paid by the borrower. The high point has been 50 cents per annum for each \$100 of a loan, and the low point, 20 cents. The present cost is 25 cents per annum. From the inception of the plan in 1936 until the 31st May, 1953, which happened to be the end of the policy year, the total death claims paid numbered 3,577 aggregating \$537,310.

Now, the next page indicates classification of loans by purpose, by occupation of borrower, by the amount of the loan, and relating to the borrower's previous banking contact. These are given to illustrate the nature of this type of business.

Turning to page 5—I will not read the figures, but there are a few things on which I might comment there. You will notice that in the first column is the aggregate of all loans from the inception of the plan in 1936 till the end of October, 1953. Besides it is the result for the year only ended October 31, 1953. The items of principal interest are: the first item, medical, dental and hospital bills, where the percentage has dropped from 18 per cent to 10 per cent; consolidation of debts, from 17 per cent to 12 per cent; and, going down the list, you will notice that borrowings for house improvement and such increased from 18 per cent to 26 per cent; motorcars, 7 per cent to 13 per cent; and miscellaneous a little up.

On the next page is the classification of loans according to the occupation of the borrower, which I think is self-explanatory. There are no particular changes in the nature of the business from that source.

The next is the classification of loans according to amount. In the first column there is a breakdown according to the sizes of the loans. Up until the end of 1953 we did not keep separate figures for the amounts of loans in excess of \$500. We did analyze them for the year ended October 31, 1953, because it appeared obvious that the average amount of the loan was increasing and we wanted to see what it was and which way it was going. You will notice that the amount of loans over \$500 is noticeably higher in 1953 than for the average of 18 years.

Turning to the next sheet, as it had been suggested from time to time that this was a service being given to The Canadian Bank of Commerce customers alone, we analyzed the source of this business according to banking contract of our borrowing customers. Taking the numbers, you will notice that 35 per cent of them had no bank account at all, approximately 15 per cent had accounts with other Canadian banks, and 49.4 per cent had accounts with The Canadian Bank of Commerce.

The next two sheets, I am afraid, you will find rather complicated. It will take some time to study them, but what we wanted to demonstrate—we knew it to be the case ourselves, but we wanted to make it clear from our actual figures—was that the business going into this personal loan plan is not business that would ordinarily go on the books of our branches. So we made a very careful study and we found that the percentage of our loans to individuals was considerably higher than the percentage of loans to individuals by the banking system as a whole. The figures for all banks are available through a publication issued by the Bank of Canada. We then adjusted our own figures by taking off the amount of loans under the personal loan plan, and we found that our percentage of loans to individuals then remained just slightly higher than the percentage of loans to individuals by other banks. In addition to that, for some years past we have been analyzing the instalment loans on the books of our own branches. We wanted to be quite sure that loans which could be placed on branch books should go on the books of the branches because the charges in the personal loans department were higher. We found our branches were doing a very substantial volume of actual personal loan business on loans payable in instalments to people who were known to them to be good credit risks. These were partially or fully secured, or to people well known to be of good credit standing and that sort of business.

Page 10 I think you will find is self-explanatory and unless you wish me to, I shall not go into it further at this particular point.

Now, we have made a comparison of the nature of the loan that is made by a small loan company, and the source of our information was in the reports made to the superintendent of insurance—who compiles a consolidation of all reporting small loan companies.

On page 11 you will notice the classification of loans by security. I should have said page 12. And the interesting thing there I think is the fact that small loan companies did a volume of \$102 million in 1952 secured by chattel mortgages against the total maximum of \$147,000,000. But we did none of that class because chattel mortgages are prohibited under the Bank Act. Endorsed notes were at a volume of \$2,742,713 and we did \$17,301,846.

Endorsed notes were the real origin of the plan. Since we started out with no experience in the business, we studied the United States practice and started out with the endorser plan and with no other type of security permitted.

Unsecured loans in the case of small loan companies amounted to 29·0 per cent of their total, and in our case it was 39 per cent. It was inevitable that with our experience and development and our more extensive records we should find a growing body of borrowers to whom we could lend on their own name without any endorser or security. I think that is the reason why that kind of business has been increased, and why about 40 per cent of our business is in single-name notes.

In operating the plan we started off by charging up to the earnings a reserve for bad debts and accumulating it gradually on our books. On page 13 we have explained the percentage of this reserve for bad debts in comparison with the companies operating under the Small Loans Act. From the inception of the plan until October 31, 1953, the total of loans written off was \$387,000 which less \$157,000 subsequently collected would leave \$223,000 and this works out to one-tenth of 1 per cent of the total loans made during the entire eighteen year period.

Therefore based on experience and disregarding other considerations reserves at present may seem unnecessarily high, but we have been very conscious all during the period in which we have been operating that highly favourable conditions have prevailed and we have felt that under such conditions it would have been or less than prudent not to accumulate a reserve against possible future losses. We have now a reserve on our books of 4 per

cent against bad debts and the small loan companies have a little less than 3 per cent. Recent experience has been that the amount of arrears of loans is growing.

We have also analysed the earnings and costs of our personal loan plan. The figures were prepared for internal purposes because we wanted to get a practical reflection of the operating results. The costs do not include all aspects of expense. You will understand that it is impossible to determine, without expensive research all elements of cost changeable at branches.

There is no allowance for the cost of establishing branches and for carrying them forward, but just the actual direct expense. Now we wanted to verify our own figures to make sure that the charge for direct expenses—that is direct out-of-pocket cost—was not excessive, and we asked our own chartered accountants to review the system we need. They have advised us that they think it is fair and reasonable so far as operating expenses are concerned, but not for the general overhead expenses which are associated with operating branch banks. And we have also mentioned here that we expect a change in the operating profit ratio in 1954 because of the increase in interest paid on savings accounts which we worked out after some very careful calculating as perhaps .21 per cent additional with an increase in the cost of funds which should work out to .35 per cent; but we have reduced the reserve for bad debts by .20 per cent.

The number of employees working in the personal loans department is 140. This does not include the many working wholly or partly on personal loans throughout the branch system.

Subject to what I have said about these figures containing only direct expenditures in so far as branches are concerned, the operating figures, in accordance with the experience we have had in 1952 and 1953 are shown at page 15.

In the first column the 1953 total earnings work out at 9.32 per cent. This is not a typical experience. Under the system of bookkeeping employed the actual unearned interest is calculated in detail every three years instead of annually. This is because we have had to do everything possible to keep down the expenses in this plan but we find that a three-year test is sufficient. 1953 showed 9.32 per cent but 1952 was 10.62 per cent of earnings and the average of 10.46 per cent is representations.

The salaries in the department in 1953 are shown at 2.16 per cent; and advertising at .03 per cent. I shall comment on that later. And the other expenditures at the branches number 2.49 per cent. Cost of funds has been charged at the barest minimum figure because we wanted the department to operate successfully and to show a profit. That charge in here is 2.15 per cent, and the reserve for bad debts is shown as .40 per cent showing a cost up to that point of 7.23 per cent and an operating profit before tax of 2.09 per cent. Income tax is .98 per cent, and the net profit after income tax is 1.11 per cent.

The reason the profit is not net is because we have not calculated how much additional would be the cost at the branches which should go in here in order to allocate every single item of expenditure and overhead cost which from an accounting view should be charged against the plan.

At the bottom of that page you will find the figures in regard to the volume of business. The average loans outstanding are \$25,400,000; less unearned discounts of \$1,500,000 net or \$23,900,000, which, less average savings deposits related to that business leaves the net funds employed at \$15,566,000.

The 1952 figures follow similar lines.

On the following page, page 16, are shown the average results of the plan from its inception. We find quite a variation from one year to the other in actual operating results, and you will see at the bottom of that page that the profits, after income tax—once again before the full assessment of branch charges—average at \$54,000, during that period, and that works out to .77 per cent of the net loans outstanding.

I think it would be interesting however, to mention that not too many years ago we ran into a period of rather heavy losses in the department; in 1945 we showed a loss of \$54,000; in 1946 a loss of \$146,000; and in 1947 a loss of \$70,000. In later years the figures have come back to a better showing.

On page 17 we refer to a comparison of earnings and costs of the personal loan plan compared with companies operating under the Small Loans Act. As the business conducted under the personal loan plan and by companies operating under the Small Loans Act is similar, comparisons of earnings and costs have been constructed and are exhibited in tables 12 and 13 on pages 18 and 19. The parts of these tables relating to companies under the Small Loans Act have been derived from figures quoted in the report of the superintendent of insurance entitled "Small Loan Companies and Money Lenders" for the years 1952 and 1951. These comparisons are made not to offer any commentary on the operations of the small loan companies which have obviously filled a public need in the high cost field. The comparisons do indicate, however, that extreme economy in operations has been necessary under the personal loan plan. During the past 18 years the annual operating results of the personal loan plan showed a loss in each of 5 years and a net profit of less than \$50,000 in each of 6 years. It is apparent that if expenses in the personal loan department had not been restricted to a low level compared with the small loan companies the department would have operated at a heavy loss throughout the period. Now, I would like to explain that this comparison we have made with small loan companies is not altogether fair to them because we have not done the cost accounting work to allocate the cost of premises expenses and other overhead items whereas the small loan companies operate individual branches which do nothing but that type of business. This gives a rough picture of the scope and nature of our own operations compared with theirs, but we cannot give you any exact comparison. If the small loan companies take exception to it I think they are entitled to a good deal of sympathy.

The CHAIRMAN: That is about all they will get.

The WITNESS: You will see in this comparison, firstly, that the earnings of the small loan companies as a percentage of their loans is a little higher than 23 per cent, while our personal loan plan shows 10.62 per cent. Their salaries appear at 5.68 per cent and ours at 2.81 per cent. Their advertising expense is 1.19 per cent, and ours is .03 per cent. Other expenses 3.88 per cent for small loan companies compares with 2.74 per cent in our case but this includes the proportion of salary cost at our branches. The total up to that point for the small loan companies is 10.75 per cent, and for the personal loan plan 5.58 per cent. Cost of funds in the case of the small loan companies is 3.07 per cent, and ours have been charged in at 2.09 per cent.

Mr. TUCKER: How did you arrive at that figure?

The WITNESS: We did a cost accounting study and put this figure in at the very lowest possible level. We allowed for interest paid and related operating cost and we also put in the current account funds which do not carry interest. The instructions to the department were to put the figures in at the minimum. Actually some of our cost accounting figures have indicated that the costs have been higher than this, but we have used the minimum figure.

Mr. CRESTOHL: Is that the cost to the bank or the cost to the personal loan department?

The WITNESS: After reserve for bad debts the small loan companies show costs of 14.08 per cent, and personal loan plan 8.14 per cent. Then it comes down to profit after tax, 4.44 per cent for small loan companies, and the personal loan plan 1.24 per cent. This latter figure is subject to the qualification I mentioned before. That is the comparison for 1952. On the next page

there is the comparison for 1951. We have sought the reasons why our own personal loan business, which is conducted at considerably lower expense to the public than the small loan companies, has not grown a great deal more volume and we have come to the conclusion that there are several reasons and they are recorded at page 20. One of them is that the small loan companies by taking chattel mortgage security do not need to require endorsers or guarantors. This enables borrowers to preserve greater privacy about their affairs.

Mr. JOHNSON (*Bow River*): Do you think that 4.44 per cent was excessive?

The CHAIRMAN: It was a comparison; he did not express an opinion.

The WITNESS: Another reason was the relatively low level of earnings under the personal loan plan has not permitted or warranted adequate advertising. For example, advertising costs of the personal loan plan in 1951 and 1952 totalled \$10,679, while the outlays of the small loan companies totalled \$1,360,775. Part of the reason for the low level of advertising expenditure, however, derives from policy. During the period of voluntary credit restriction of 1951/1952 and in earlier years of full employment the bank did not seek to expand personal loan volume, believing that this was not, at that time, in the public interest. It is doubtful, however, whether this had much effect other than to permit a larger volume of loans to go to the small loan companies. Another aspect which appears to us to be a real one is that the element of cost is probably not a significant consideration in the minds of the majority of small loan borrowers. If it were, they would, presumably, shop around more. Our final summary is that the personal loan plan of the Canadian Bank of Commerce was created to provide a necessary service to the public at the lowest cost consistent with an economic operation. Its methods of operation, must of course, conform with legal opinions upon which the scale of charges is based. As previously mentioned, the present basis is not sufficient to permit the necessary publicity and development in rendering service of greatest breadth, but it is not suggested that a scale of charges approaching the level sanctioned under the Small Loans Act should be considered. Experience has shown that the personal loan plan of the Canadian Bank of Commerce can provide an effective service at lower rates and it has also shown that authority to take security in the form of chattel mortgages is a necessary condition to the providing of comprehensive personal loan facilities.

By Mr. Tucker:

Q. Has any study been made of the figures in the province of Quebec as compared with the rest of Canada? I understand that in the province of Quebec chattel mortgages cannot be taken?—A. I do not have figures with me which would show it province by province, but we do a considerable of personal loan business in the province of Quebec.

Q. What I had in mind was the relationship between the business you did compared with the small loan companies in the province of Quebec compared with the rest of Canada, and the volume of business the small loan companies do there, because the reason you give that chattel mortgages are available to small loan companies would not be applicable in the province of Quebec, and I wondered if your figures would show that and if you have looked into it?—A. We have no comparison of figures on the small loan companies operating in Quebec alone. We have our own figures. My comment was based on the large volume of chattel mortgage loans made by the small loan companies.

Q. How do they do business in the province of Quebec? Have you any idea about that?

The CHAIRMAN: Do they do business in the province of Quebec?

Mr. TUCKER: How do they do business in the province of Quebec? They are not permitted to take chattel mortgages in Quebec.

Mr. CRESTOHL: No, you cannot take chattel mortgages.

The CHAIRMAN: Do they do a big business?

Mr. CRESTOHL: Yes, but mostly on guarantors and endorsers.

Mr. MACDONNELL: I would like to ask a question. You said in your effort to keep the cost of this service down to as low a level as possible you did not include the whole of your cost in a bank or branch. For example, you would not charge the full proportion of overhead. Could you make that a little more explicit? In particular, let me ask about one figure which appears here on page 18—a salary figure showing a comparison of from 5.68 to 2.81. Would there be some salary cost at a higher level which you might have included if you were being meticulous in your costing, but which you carried as part of the overhead and did not show?

The WITNESS: I would like to answer that by making two comments, Mr. Macdonnell. Part of our salary cost is shown in other expenses which includes branch expenses, but there are many elements of branch costs not allocated. Because we do this business and it is part of the general banking business, we can achieve economies which I do not suppose the small loan companies can. For example, in one branch which does a certain amount of small loan business, you may not need a full-time employee to handle it. If the volume exceeds a given amount then you need a full-time employee or more, and that is a comparable salary cost, but many of these salary costs probably are not comparable for that reason.

Mr. MACDONNELL: May I ask whether there is some special incident or condition which attracted you especially into this line of business?

The WITNESS: Well, in 1935—

The CHAIRMAN: I think he said it was a public service and I agree that it is. I regret that the others are not doing the same thing.

The WITNESS: In 1935 we made quite a comprehensive study of services available to the public, and this was one field we came to where we were not sure we were doing as full a job as we could. We examined services elsewhere in other countries, particularly the United States, and found that certain banks there did operate a personal loan service. We studied their methods and how they operated, and we found that many of their methods were not at all applicable to the conditions we had in Canada, so we adapted a plan of our own which we thought would fill a public need.

Mr. MACDONNELL: The chairman has not suggested yet it was the change of government in 1935 which brought it about! One other question: I think you said as time went on you found yourself more and more able to deal with people on their own, and without endorsers. Was that purely as a result of experience or have you developed more skill in reading character?

The WITNESS: We have developed very extensive credit records.

The CHAIRMAN: That is a skill!

Mr. CRESTOHL: Are you the only bank which operates a personal loan service?

The WITNESS: We are the only bank which operates a personal loan plan of this type, yes.

The CHAIRMAN: Mr. Weaver?

Mr. WEAVER: Mr. Chairman, I would like to ask the witness a couple of questions. He mentioned that the business was limited because of their being unable to take chattel mortgages, because in taking guarantors the person's

private business entered into it, and then when the question of Quebec came up it was indicated that the small loan companies do not take chattel mortgages there. Is that the same relative business—does it still apply?

The WITNESS: I am not familiar with the basis on which the small loan companies do business in the province of Quebec. My only reference to chattel mortgages was based on the large volume they do against chattel mortgage security and in our own experience we found in many cases people do not like to ask someone else to endorse, but are perfectly happy to give a chattel mortgage.

Mr. WEAVER: What are the methods of taking securities? Are there just two,—chattel mortgages and guarantors? Are there any other methods?

The WITNESS: Again, I cannot tell you what the practices are in the small loan companies, but in our own case there are only two methods—one with guarantors, and one without. About 60 per cent of loans are with endorsers and 40 per cent are without. We will not make personal loans in our personal loan department with security. If a man has security he must go to a branch.

Mr. FLEMING: May I ask a question, Mr. Chairman?

The CHAIRMAN: I really should give preference to all members who are stuck as guarantors, but I will let you go ahead.

By Mr. Fleming:

Q. You have had this plan in operation for 18 years. Would you say that the degree of satisfaction with which it has operated has tended to grow or decrease?—A. I think it has grown. Do you mean satisfaction to the public who use the service?

Q. I was thinking about the bank in the first instance.—A. Well, Mr. Fleming, we have had many ups and downs with this plan. It has been heavily in the red from time to time and we have worried about getting it out of the red. I mentioned years in which we ran into quite considerable losses with it. I think the worst year was 1946 when there was a loss of \$146,000. One of the principal reasons I think this plan has come out of the red within recent years has been because the average amount of the loans has been increasing.

Mr. MACDONNELL: Could I ask if you are able to offer any special explanation for that substantial loss in 1946?

The WITNESS: Well, at the end of the war, you will remember, salary controls were off and all kinds of operating costs started to grow rather rapidly. All types of operating costs went up. Our volume total did not show any material increase, but the cost of operation showed a very considerable increase and that continued actually as long as the average amount of the loan was at a rather low figure. There would likely still be a loss if the average amount of loan were the same as then, but in more recent years the average amount borrowed by the borrowers has increased as shown in the figures in the brief and in as much as the cost of handling the loan is the same whether it is \$300 or \$1,500 it has brought about an improvement.

By Mr. Fleming:

Q. Your increased average loan in the past two or three years have put you in the black?—A. Yes, but we are not too proud of that because we have not succeeded in doing the job in bringing this service to the public the way we should like. Our advertising expense, for instance, has been kept, I think, at too low a figure—\$3,600 from 1952—which obviously does not cover much advertising. If we spent the same proportion as small loan companies, we

would have spent perhaps \$125,000, and if we had gone in for the advertising and publicity necessary for promotion of the plan, I think that the operating results would have been very different.

Q. You mentioned earlier that the arrears are growing. Over how long a period have the arrears been growing?—A. During the war years, of course, there was very full employment and there were virtually no arrears at all, but after the end of the war, as we got back to more normal conditions, we saw a very slow and very gradual increase in loans in arrears, and that has been more noticeable during the past year.

Q. How marked an increase is it in the last year? Is it significant in amount or percentage?—A. Well, I will explain it this way. It does not worry us. We think it is coming to a normal percentage. In this type of business we expect to see a certain amount of increase in loans in arrears, but that does not mean that they are all uncollectible; it means our expense of collecting is going to increase.

Q. Apart from whatever profit this operation shows over a period of time and apart from the factor that you have mentioned of rendering public service, are there any secondary benefits or disadvantages that flow from this? For instance, has this type of business contributed in any way to extending your business through having commended the services of the bank to a wider number of depositors?—A. Yes, there has been that tendency and, of course, we try to do the best we can in that direction. Undoubtedly we have obtained new customers who have become permanent customers of the bank. We have encouraged everyone who becomes a personal loan borrower to become a regular savings account customer as well, for two reasons. One is to obtain additional business; the other is to do him a service. But I do not know that we have actually gained any large volume of additional business as a result of it.

Q. May I ask you if The Canadian Bank of Commerce has been asked to extend loans to small loan companies since going into this operation?—A. We have small loan companies who borrow from us. On our books we have a number of customers.

Q. Has this operation affected the business you have done with those small loan companies who were your customers?—A. Yes.

Q. Favourably or otherwise?—A. We have lost some accounts.

Q. I have one other question. You have been in this business for 18 years and you have not withdrawn from it. I gather that no other chartered bank has ever gone into this particular type of lending operation?—A. No, we do not believe that the other type of banks do the same type of business as we do, and I think the figures given in the brief bear that out. We have a large volume of business with people who have no bank account, and a noticeable volume of business with customers of other banks.

Q. That is in this particular operation?—A. Yes.

Q. Was there anything in the circumstances or the particular nature of the business of The Canadian Bank of Commerce in 1935 that differentiated it from the other banks at the time of the inception of this plan?—A. No, I do not believe so. We were all doing about the same type of business. We initiated this plan because we thought that it was a field that we could fill, and fill successfully. I can quite understand, perhaps, the reluctance of other banks to enter into it. We did it on the basis of legal opinions we obtained as to the charges to the public of six per cent discount on the amount, together with the arrangement for our required monthly payments into the savings account. No one has ever contested those legal opinions, and I think the fact that the cost to the public is very much lower than the comparable services elsewhere meant that it had a good deal of public support, but it may be that some others would not take the same legal view.

Q. May I ask a final question about the geographical aspects of this plan? You operate in all provinces. Where have you found this plan to be most actively used?—A. In the areas where there is the greatest population. In the province of Ontario would be the largest. I cannot speak from memory about the figures. We do have geographical analyses, but every department has quite a substantial volume of business as compared with our total business.

Q. It has not been invoked in all the rural areas?—A. Yes.

Q. Extensively?—A. Not nearly to the same extent in rural areas. It depends to a very large extent on the population of wage-earners and salary-earners. In rural areas, where the population is predominantly farmers, this plan is not used at all. A farmer borrows on his own name at the branch bank; so the use of this plan depends very largely on the population of wage-earners and salary earners.

The CHAIRMAN: Mr. Philpott.

Mr. CANNON: Before you leave that question—

By Mr. Philpott:

Q. I want to get away. May I ask this? Is it true that in Quebec the small loan companies, when they are not able to take a chattel mortgage, actually take an advance, a signed bill of sale?—A. I do not know, Mr. Philpott. I do not know just what they do in the province of Quebec.

Q. You suggested that if you were able to take chattel mortgages that would give you a chance to expand your business?

The CHAIRMAN: Your question was, "Would it expand the business?" I think that is right.

By Mr. Philpott:

Q. For his bank to have the power to take chattel mortgages?—A. We feel that chattel mortgages are necessary in order to establish a really comprehensive personal loan service.

Q. Would you feel that one reason why people go to small loan companies, in spite of the fact that their charges are most excessive as compared with your charges, is that people do not like the humiliation of having to get guarantors?

The CHAIRMAN: "Humiliation" is a harsh word.

Mr. PHILPOTT: If it is too strong a word, let us make it something more conservative: "embarrassing".

The CHAIRMAN: Conservatives are usually embarrassed. Go ahead.

The WITNESS: I think that a number of people who might want to borrow under this plan would prefer to give a chattel mortgage rather than ask a guarantor to join. We have a considerable business with guarantor loans, and I do not want to describe the matter so that anyone would feel that there is anything wrong with getting guarantors, but I think that it is a natural human tendency, that if one can borrow money without talking to others outside the family, one would prefer to do it.

Mr. PHILPOTT: That is all I wanted to ask. Now, I think this bank deserves congratulations for having pioneered in this field.

The CHAIRMAN: I certainly share your view on that.

Mr. CANNON: The first question that I wanted to ask had to do with a question asked by Mr. Fleming. You say that you are the only bank in the field. It seems to me that I have seen advertisements by the Bank of Montreal that they have a personal loans department. I may be wrong on that.

The CHAIRMAN: Mr. Jensen is here.

Mr. CANNON: Has the Bank of Montreal a personal loans department?

Mr. ARTHUR C. JENSEN (*General Manager, Bank of Montreal*): We make personal loans but not under the same plan.

By Mr. Cannon:

Q. It seems to me that I have seen that somewhere, and I was wondering if I was right. Now, I would like to have a little explanation of the item on page 18, "Cost of funds". What is that made up of?—A. I can explain it this way: that we have put in the barest minimum cost of funds. There are several cost accounting studies which were made of the cost of the funds and we selected the minimum. I cannot give you the exact formula off-hand.

Q. You cannot tell me what items are in that cost?—A. I beg your pardon?

Q. I say you cannot tell me what items are in that cost?—A. No, I cannot, except that I believe that this is on the low side. I think it is probably lower than it should be on strict cost accounting. But, as I mentioned, we prepared these figures internally because we wanted this department to show a profit and we endeavoured to make all the charges in respect of this department as low as we could.

Q. Everybody seems agreed that it is a valuable service you are giving to the public but they think you are being rather conservative with your advertising.—A. Yes.

Q. It seems to me that if it was better advertised you would give even more service to the public.—A. For some years after the war, we were in the "red" in this department very heavily and we had to put into effect all economies we could to try to get it out of the "red". But about the time it began to put its head up, in came the period of credit restrictions. Before that we considered the matter of advertising in 1948 and 1949 and decided on a broad policy against encouraging personal indebtedness, and then the period of credit restrictions then came along when it was contrary to public policy, and it was only within the last year or so that perhaps we have been able to get back into it again.

Q. These figures of loans are hardly comparable. You have only \$10,679 for advertising during the years 1951 and 1952; that is advertising of your bank alone.—A. Yes.

Q. And you compare that with \$1,350,775 generally for small loan companies altogether, I suppose?

The CHAIRMAN: When he speaks of small loan companies he speaks of all that report to the superintendent of insurance.

Mr. CANNON: Would that cover only the three small loan companies?

The WITNESS: The companies reporting to the superintendent of insurance under the Act. It may be that there was a number of them but not a large number. However, I do not remember how many.

Q. A fairer comparison would be the one on page 19 where you have a table showing the items of operating costs?—A. Yes.

Q. 1.06 per cent for the small loan companies, and .05 per cent for personal loans.—A. That is much fairer, yes. I have some misgivings about making these comparisons with the small loan company operations. We thought it was necessary in order to consider the operations to put the figures into comparison in some way.

The CHAIRMAN: Now, Mr. Monteith.

Mr. MONTEITH: I wondered why the small loan companies cost of funds was somewhat lower in 1953 than in 1952. Was that because they put in more capital?

The WITNESS: I do not know. We just took the figures from the superintendent of insurance reports.

The CHAIRMAN: Now Mr. Cameron.

By Mr. Cameron (Nanaimo):

Q. Mr. McKinnon, I want to get something through my thick head. I notice that you quote the average loss rate as .41 per cent. I suppose that means the percentage of your total loans which you were unable to recover.—A. Well, the actual irrecoverable losses against the total volume throughout the entire experience of this plan have been about one-tenth of 1 per cent. More recently there was a net loss of one-quarter of 1 per cent.

Q. What I was wanting to get at is this — —

The CHAIRMAN: Please do not ask him that question, Mr. Cameron.

By Mr. Cameron (Nanaimo):

Q. When you refer to your own knowledge that this scheme went into the "red" I presume that meant the years in which you had difficulties in getting your loans repaid, and there was more cost in getting them repaid.—A. No. It was losses by way of bad debts in those years. The trouble was that actual cost of operations exceeded revenue.

Q. That is what I meant. It must have made it difficult in getting your loans repaid.—A. It was quite a small percentage.

Q. The next item is the matter of advertising which Mr. Cannon mentioned. Perhaps I am particularly unobservant but I have had an account in your bank for many years and I was not aware of this personal loan service until I sat on this committee.—A. Our faces are red.

Q. That is a very important point. Presumably you have literature in your bank which I did not bother to pick up, but I was unaware of that personal loan service.—A. Our branches are equipped with signs to advertise the personal loan service and I am surprised.

Mr. FLEMING: It is very dignified advertising.

Mr. CAMERON (Nanaimo): It must be terribly dignified.

The CHAIRMAN: While we are asking these questions, there arises this thought in my mind: are you competing for the same loans with the small loan companies and the money-lenders?

The WITNESS: Yes.

The CHAIRMAN: It is really a little difficult for me to understand why a man will pay these high charges as against what I think are the reasonable charges that you make. The motive you give is the matter of embarrassment and not the matter of secrecy.

Mr. MONTEITH: Sometimes a man cannot get a guarantor, but generally he can give a chattel mortgage.

Mr. CRESTOHL: That is just what I was trying to get at before.

The CHAIRMAN: Now, Mr. Macdonnell.

By Mr. Macdonnell:

Q. What percentage of applications were turned down, speaking roughly? Any substantial percentage?—A. Oh no. The percentage is rather small. In the 12 months covered by the survey referred to in table III, the refusals were 7.72 per cent of the total number.

Q. The reason I ask is because of the quite strong statement you make in the last sentence of your report when you say:

Experience has shown that the personal loan plan of the Canadian Bank of Commerce can provide an effective service at lower rates and it has also shown that authority to take security in the form of chattel mortgages is a necessary condition to the providing of comprehensive personal loan facilities.

But if actually you grant 93 per cent of your applications, I find that statement somewhat strong and I want to ask you to what extent, in the case of that 93 per cent, you would say they were granted upon chattel mortgages, if you have that figure available? When reading this statement one might take the inference that you would almost make a chattel mortgage a routine affair and yet that adds to the expense of the small loan. Would you do that?—A. I am not at all sure that it is the practice of small loan companies to register chattel mortgages. In fact I rather doubt it. I think they would take a chattel mortgage and hold it, and I believe that in law it would be good against the borrower but not against a possible creditor. So the cost of a chattel mortgage is kept to the minimum in that way.

The CHAIRMAN: Assuming that they registered it, that would make a difference in the cost.

Mr. MACDONNELL: I do not disagree with you. But when I got to the figure of 93 per cent I wondered; and I suppose it is only human instinct to make yourself as secure as you can; but I wondered if you would feel it necessary, having the benefit of your experience, to make that a condition, as is almost implied here.

Mr. TUCKER: I was just going to deal with Mr. Macdonnell's question. The small loan companies make a great point of advertising that you do not need an endorser and a lot of people who figure that they could not get an endorser will go to a small loan company.

Mr. MACDONNELL: I understand from Mr. McKinnon that very often there is not an endorser in their business.

The WITNESS: In about 40 per cent of the loans.

By Mr. Fleming:

Q. Can they get larger amounts from the small loan companies?—A. I do not know that the cost is a very important factor.

Q. Would not the average of loans in small loan companies be larger than the average of the loans you make?—A. That might have been true at one point, but I rather doubt it in recent years. The reports of the superintendent of insurance cover loans by the small loan companies up to \$500 but they all operate over that figure and do not have to report.

Q. I think that these companies do extend loans in larger amounts, quite a number of them, and I suppose it is to their advantage to have the larger loan because it reduces the proportion of the overhead costs.

By Mr. Crestohl:

Q. Mr. McKinnon you spoke about losses during some of the years of your operations. Were any of those losses due to non-payment by borrowers?—A. The losses on bad debts were all on non-payment by borrowers.

Q. How does the life insurance scheme you spoke of on page 3 protect you?—A. If the borrower dies the amount of the loan is repaid by the insurance policy and neither he nor his relatives have to pay it back.

Q. If that insurance plan is in force you should not have suffered any losses by unpaid debts.

Mr. CAMERON (*Nanaimo*): Some of them have not been kind enough to die.

The WITNESS: Some of them cannot pay their debts and continue to live.

By Mr. Crestohl:

Q. I have one or two questions to ask. Can you tell us whether in 1934 when you said your scheme was inaugurated and until then all the banks were doing a rather uniform sort of business and this was a modification in the operation of normal banking business, did you consult with your colleagues, the other bankers, or spring it as a surprise?—A. We did not discuss the matter with them.

Q. Did you discuss it with the Inspector General or the superintendent of banks?

Mr. MONTEITH: That is one of the points of competition.

By Mr. Crestohl:

Q. I just wanted to know.—A. I was not there at the time. At least I was at our head office but did not occupy a senior position.

Q. I understand you had legal opinion as to the position under which you operate. Do you know whether your bank has any special authority by charter or otherwise, or is it under your general charter?—A. It is under the general charter.

Q. So I would imagine that the other banks would have the same authority to operate under their general charter?—A. If they received the same legal opinion.

Q. They might be willing to accept the one you received?—A. I rather doubt it. Not because there is any faulty opinion, but because banks usually do not act by the experience of others in matters of that kind.

The CHAIRMAN: The only member of this committee who was on the committee that made an enquiry into the small loan companies in 1938 is Mr. Tucker.

By Mr. Macdonell:

Q. You speak about arrears increasing. I think you said that?—A. Yes.

Q. Could you give us what you consider to be the cause or causes?—

A. I have no statistics available to show what the causes would be. They take place over quite a wide area and we have not attempted to classify them according to occupations. But, as I mentioned, we look upon it as rather a trend to a normal experience. We rather anticipate our losses will likely be higher than they have been in the past by way of bad debts.

The CHAIRMAN: Gentlemen, I recommend that you read the report on the small loan companies, number 14, dated June 1, 1938. It was issued during the session of 1938. You will find it in the journals in the library.

Mr. CRESTOHL: What is the reference again?

The CHAIRMAN: Report respecting small loan companies, number 14. I think that was the final report dated June 1, 1938.

Mr. TUCKER: I might say that it may be regarded by all the members here as a disappointing thing that parliament should have passed a law giving the small loan companies the right to charge 2 per cent per month. I at the time also opposed it but witnesses were called in great numbers to show if they were not given the right to loan at 2 per cent; companies were already making loans at 4 per cent per month and even higher; and this would continue if the proposed law were not passed. The Russell Sage Foundation sent a witness up from Washington at the request of the committee who said that no license small loan companies at a rate of 2 per cent was much better than to permit

the matter to go on the way it had in the United States where needy borrowers were charged 4 per cent per month and even higher. After a tremendous amount of investigation and argument it was decided to grant this right to small loan companies.

At that time the Canadian Bank of Commerce told us that they had just started this plan about which we have heard today. At that particular time there were several objections raised in committee to the Bank of Commerce doing it. One objection was that it was suggested they might be infringing on the maximum rate of interest provided in the Bank Act. Another objection was if this infringement were permitted then the question would be, would they not charge this higher rate on loans that otherwise would go to borrowers at the maximum rate that was being set then in the Bank Act. On the other hand the suggestion was made that if all the banks would go into this thing the same as the Bank of Commerce was doing perhaps it would avoid the necessity of permitting these small loan companies to enter the field. But, then the question was raised: well, are you as a committee ready to raise the top interest rate limit in the Bank Act so that the other banks will feel absolutely safe in going into the field? At that suggestion I believe every member of the banking and commerce committee drew back. So, the Bank of Commerce really are entitled to a great deal of commendation for their public spirit in going into this field despite the doubt whether there is a legal right for them to do so, and thereby providing money to their borrowers at a rate of interest under 10 per cent when there is so much money being loaned as authorized by parliament at 2 per cent per month. However if we are to consider asking the other banks to go into this field we will be confronted again with the same thing as the committee was then.

The CHAIRMAN: If those interested in small loans suggest we give them the right to take chattel mortgage they leave the inference with me that they would occupy part of the field of those who now receive the high interest rates. It is something we should seriously consider.

Mr. FLEMING: I think we should ask Mr. McKinnon directly if the Canadian Bank of Commerce is asking for an amendment to the Bank Act to permit banks to make loans on chattel mortgages?

The WITNESS: We did have a last page in this brief which we took out because we did not think that it was entirely appropriate for us to make recommendations. We thought perhaps the best plan was to give the whole story and the banking and commerce committee will decide what to do. We also do not think that we alone are going to be able to do all the small loan business in this country if it is desired to extend the field of both operations. I am speaking from my own experience after very careful study, and for some reasons which I will not express at the moment I think two things would be necessary: one, that the banks be given the power to take chattel mortgages, and two, that there should be a provision in the Bank Act relating to personal loans with respect to interest rates. I realize the problem Mr. Tucker mentioned. We have prepared a definition of a personal loan. I have not it with me, but we feel it might overcome the problem of differentiating between it and other business.

Mr. TUCKER: How do you differentiate between this type of business and ordinary banking business? We will be most happy if you have found a formula. If we agreed to raise interest rates under the Bank Act in an attempt to help these people out we should be able to differentiate in some way, and then of course we might be able to do something, but I think we should move very charily into the field of raising the maximum rate allowable. I was going to ask you how do you differentiate?

The WITNESS: May I submit the description of a personal loan to the chairman of the committee for consideration?

The CHAIRMAN: I did not discuss this matter with Mr. McKinnon—it is all new to me. I do feel that the suggestion as raising the interest rates—is something we should be very careful about. The only thing I had in mind was the right to take a chattel mortgage for these small loans.

Mr. TUCKER: I am satisfied you will not get the other banks to go into this field in the face of a flat provision in the Bank Act which says no rate of interest shall be charged or exacted in any way higher than 6% per annum. I really can understand their position, and yet the Banking and Commerce Committee is faced with this section. There must be a differentiation. If we provided for the higher rate being charged, there would be no doubt about the legality of it, but there would be the case of people who could get ordinary loans for a couple of hundred dollars at 6 per cent who could then be told by the bank, "Now we are entitled to charge you 10 per cent."

The CHAIRMAN: All of us are thinking of a method of delimiting the field of the small loan companies.

Mr. CRESTOHL: Let us hear the definition.

The CHAIRMAN: Mr. McKinnon will submit it to the chairman, and when he has I will distribute it among the members for their consideration.

Mr. FLEMING: Mr. McKinnon has indicated how in his opinion this could be done, but he still has not indicated whether he is asking that the Bank Act be amended in this manner as a matter of policy.

The WITNESS: Mr. Fleming, we should like to see the Bank Act amended to do two things: to give us the power to take chattel mortgages, and—I do not know exactly how to express this—to provide an interest rate which would be comprehensive with what we are doing. We have a legal opinion which has not been contested in the court, and we thought it was the proper thing to do. We would like to see the Bank Act recognize it or something like it, for the purpose of personal loans.

Mr. FLEMING: Is that the limitation you are imposing on the rates, too? Is that to be confined to the small loan business?

The CHAIRMAN: Surely.

The WITNESS: Yes.

Mr. FLEMING: I think we should hear from the Bankers' Association on this point that has arisen.

The CHAIRMAN: Mr. Atkinson will, of course, be here after Easter. For the moment the Bank of Commerce are alone in that business. They are giving us their best view. We are making no decision in the matter, but are simply canvassing the situation.

Mr. FLEMING: It is something none of us asked Mr. Atkinson specifically and I think we will wish to hear from the banks on this point. This is something new in the way of a specific request for an amendment of the Bank Act.

The CHAIRMAN: For this particular business.

Mr. FLEMING: Yes, for this class of business.

The CHAIRMAN: We must be very careful.

Mr. FLEMING: As I understand it, Mr. McKinnon is now asking the committee to recommend an amendment to the Bank Act in order to permit them to loan on the security of chattel mortgages and charge higher rates of interest than that now limited by statute, in each case in relation to these small loans and for that purpose only?

The CHAIRMAN: Yes.

Mr. FLEMING: Now on that interesting proposition I think we will wish to hear Mr. Atkinson.

The CHAIRMAN: Yes.

Mr. FLEMING: Have you any opinion to express on it now, Mr. Atkinson?

Mr. ATKINSON: This comes as a surprise to me and I would prefer to express an opinion at some later date.

Mr. TUCKER: It would be best, Mr. Chairman, to have the opinion of the Bankers' Association which I think would be governed to a great extent by the feasibility of differentiating between the two types of business and that would depend to a great extent upon the definition which has been worked out—and if a definition has been worked out which does differentiate, it should be quite a definition!

The CHAIRMAN: The Americans have not been able to do it.

Mr. MONTEITH: Will the copy of the evidence concerning the small loan companies dated Wednesday, June 1, 1938, be put on the record?

The CHAIRMAN: No, but a copy is available.

Mr. FLEMING: One further question before we rise: is Mr. McKinnon going to submit a memorandum outlining the specific amendment he has in mind? I think we will have to have an indication as to the rate of interest that he considers necessary if he is proposing that the present limit be removed.

The CHAIRMAN: Mr. McKinnon will, of course, take advice and will submit a proposal which we will study.

Mr. FLEMING: Yes, but the proposal would have to cover that point?

The WITNESS: Shall I submit a memorandum to you, Mr. Chairman.

The CHAIRMAN: Yes.

Gentlemen, we have had an interesting afternoon, and these are matters we will discuss when we return from our holiday—

Mr. FLEMING: It's not a holiday—it is a change of work!

The CHAIRMAN: We return on April 26th which is a Monday. It is my intention to call a meeting for Tuesday and have as our first witness the attorney general of the province of Alberta. Then we will have the Minister of Finance, following which we will probably recall Mr. Atkinson and some of the other witnesses. After that, we will decide what national organizations should be heard.

Mr. FLEMING: Just what are the points on which the attorney general of Alberta is being called to testify?

The CHAIRMAN: I have no idea. He wants to make some general comment on the Bank Act, and he will have a memorandum prepared for the occasion.

Mr. CRESTOHL: Is that the attorney general you are talking about?

The CHAIRMAN: Yes, the attorney general of the province of Alberta, Mr. Lucien Maynard, who will speak for Alberta and British Columbia.

APPENDIX "A"

EXHIBIT No. 31

Rules of the Minister of Finance for the Determination of the Inner Reserves of a Bank

1. THE INNER RESERVES of a bank, for the purposes of these rules, shall consist of all unpublished reserves of the bank except the Bank Premises Depreciation Reserves.

2. THE TAX PAID RESERVE of a bank shall consist of the amounts transferred to inner reserves from profits or other sources upon which all income and excess profits taxes exigible by the Government of Canada have been paid.

3. (1) THE SPECIFIC APPROPRIATIONS RESERVE of a bank shall consist of amounts reserved against specific investments, loans, letters of credit and net long foreign exchange positions to the extent required to reduce the book values of the relative assets to estimated realizable values.

(2) The loss experience of a bank in respect of investments, loans, letters of credit and net long foreign exchange positions shall include all realized losses and recoveries of losses, provisions for specific losses and reversals of such provisions. The net amount of the loss experience for any fiscal year shall be transferred to the General Loss Reserve at the end of that fiscal year and added thereto or deducted therefrom as the case may be.

4. (1) THE GENERAL LOSS RESERVE of a bank shall consist of all of the remaining inner reserves of the bank.

(2) The prescribed aggregate General Loss Reserve of a bank, hereinafter referred to as PAR, shall be an amount equal to the total of the following:

(a) *Government of Canada, United States and United Kingdom securities other than those issued for a term of less than one year*

2% of the net book value of these securities, less an amount equal to any surplus of aggregate market value of Government of Canada securities of this class over their aggregate book value up to a maximum deduction of 2% of their aggregate book value.

(b) *Canadian Provincial Securities*

3% of the net book value of these securities.

(c) *Other Investments*

5% of the net book value of these investments.

(d) *Loans and Letters of Credit*

5% of the net book value of loans and letters of credit other than 1) those to or guaranteed by the Government of Canada, the United States, the United Kingdom or any Canadian province, 2) those on the security of Canada Savings Bonds at coupon rate, including those to employers under a payroll savings plan, 3) those owing by or guaranteed by other banks and 4) those which are not bearing interest because of a contra deposit.

(e) *Net Long Foreign Exchange Positions*

5% of the net book value of these exchange positions.

(3) If the total of the General Loss Reserve, after making any transfer pursuant to Rule 3 (2), is greater than PAR at the end of any fiscal year, one-fifteenth of the surplus shall be deducted from the Reserve and added to the annual earnings of the fiscal year.

(4) If the total of the General Loss Reserve, after making any transfer pursuant to Rule 3 (2), is less than PAR at the end of any fiscal year, any part of the deficiency may be extinguished by a transfer from the annual earnings of the fiscal year.

NOTE:—Under these rules the aggregate of all General Loss (or Contingency) Reserves as at the 1953 fiscal year ends would have amounted to \$319.7 millions if all banks had been holding the permitted maximum reserves.

APPENDIX "B"

EXHIBIT No. 32

PRICE RANGES OF REPRESENTATIVE BOND ISSUES

1946-1954

	1946	1947	1948	1949	1950	1951	1952	1953	1954
Gov't of Can. 3/56.....	High 106 $\frac{3}{4}$ Low 103 $\frac{1}{4}$	106 $\frac{1}{4}$ 106	103 $\frac{1}{4}$ 102 $\frac{3}{4}$	103 $\frac{3}{4}$ 103 $\frac{1}{4}$	103 $\frac{3}{4}$ 101 $\frac{1}{2}$	101 $\frac{45}{100}$ 99-85	100-15 98-65	99-90 99-30	101-10 99-85
Gov't. of Can. 3/59.....	High 105 $\frac{1}{2}$ Low 102 $\frac{1}{2}$	105 104 $\frac{3}{4}$	102 $\frac{1}{4}$ 100 $\frac{3}{4}$	103 $\frac{3}{4}$ 102 $\frac{3}{4}$	102 $\frac{3}{4}$ 99 $\frac{3}{4}$	100 $\frac{1}{8}$ 97 $\frac{3}{4}$	97-90 95-90	97 $\frac{3}{8}$ 96	100-20 97-15
Gov't. of Can. 3/63.....	High 105 $\frac{1}{2}$ Low 101 $\frac{1}{8}$	105 104 $\frac{1}{2}$	100 $\frac{1}{2}$ 100 $\frac{1}{8}$	103 $\frac{1}{4}$ 100 $\frac{3}{8}$	102 $\frac{3}{4}$ 99 $\frac{1}{2}$	99 $\frac{1}{2}$ 94 $\frac{1}{2}$	95 $\frac{3}{4}$ 93 $\frac{1}{4}$	94 $\frac{3}{4}$ 93 $\frac{1}{2}$	100 $\frac{3}{4}$ 94 $\frac{3}{4}$
Ontario 2 $\frac{1}{2}$ /69*.....	High Low	101 99	96 $\frac{1}{4}$ 93	97 $\frac{1}{2}$ 94	96 $\frac{3}{4}$ 95	96 86 $\frac{1}{2}$	87 $\frac{3}{4}$ 84	87 $\frac{3}{4}$ 83 $\frac{1}{2}$	93 $\frac{1}{4}$ 86 $\frac{1}{2}$
Quebec 3/62*.....	High Low	105 103	101 $\frac{1}{4}$ 99 $\frac{1}{4}$	101 $\frac{1}{2}$ 99 $\frac{1}{2}$	102 99	99 $\frac{3}{4}$ 94	94 $\frac{3}{4}$ 92	94 92	98 $\frac{3}{4}$ 92 $\frac{3}{4}$
Manitoba 2 $\frac{1}{2}$ /66.....	High 99 $\frac{1}{4}$ Low 99	101 98 $\frac{1}{2}$	98 $\frac{1}{2}$ 94	97 $\frac{1}{2}$ 94	96 $\frac{1}{4}$ 94	94 $\frac{1}{2}$ 85 $\frac{3}{4}$	88 84	87 $\frac{1}{2}$ 83 $\frac{3}{4}$	93 $\frac{1}{2}$ 86 $\frac{1}{2}$
Winnipeg 2 $\frac{1}{2}$ /66.....	High 99 $\frac{1}{4}$ Low 98 $\frac{3}{8}$	100 98	95 92	96 93	96 93	94 85	87 $\frac{3}{4}$ 84	87 $\frac{3}{4}$ 83 $\frac{1}{2}$	93 86
Bell Tel. 3/77.....	High Low	104 100	100 95	100 $\frac{1}{4}$ 96	100 97	98 80	88 81	85 $\frac{1}{2}$ 81	90 84 $\frac{1}{2}$
Imp. Tob. 2 $\frac{1}{2}$ /66.....	High 102 $\frac{1}{2}$ Low 100	101 $\frac{1}{2}$ 100	101 95	99 $\frac{1}{2}$ 95 $\frac{1}{2}$	99 96 $\frac{1}{2}$	97 $\frac{3}{4}$ 84	87 82	86 83	88 85

* Issued in 1947.

APPENDIX "C"

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A BRIEF ON PERSONAL LOANS, SUBMITTED ON REQUEST BY THE CANADIAN BANK OF COMMERCE TO THE STANDING COMMITTEE ON BANKING AND COMMERCE OF THE HOUSE OF COMMONS, APRIL, 1954.

THE PERSONAL LOAN PLAN OF THE CANADIAN BANK OF COMMERCE

The origin of the Plan, method of operation, an analysis of the nature of the business, earnings and costs, and recommendations for amendments to the Bank Act to enable a more effective service to be given in the future.

Submitted to the Standing Committee on Banking and Commerce of the House of Commons April, 1954.

INTRODUCTION

Studies of loan facilities available to the public through the chartered banks were conducted by The Canadian Bank of Commerce in 1935, and particular attention was given to services to individuals for their personal needs. The studies indicated that although all banks followed the practice of lending extensively to a large number of individual borrowers, as a general rule such loans were made either to people of financial substance or to those who, while having no financial resources of consequence, were known to banks and in the community as responsible people and good credit risks. The latter group consisted largely of wage earners or salaried people but it seemed evident that they represented only a small minority of the many responsible people for whom a planned loan service would be a genuine aid in the management of their affairs, and whose character and sense of obligation were such that they could safely use a service of this type. It was therefore decided to establish loan facilities for this group.

To be useful to the public the service had to be widely available, yet it was recognized that there would be a tendency for branch managers to avoid loans of this nature because of (a) the risk of individual loss in loans to borrowers of no means (b) the small revenue from individual loans of modest amount although these loans normally involved cost as large as or larger than loans of much greater amount and (c) inadequate collection facilities for this type of business. The plan, however, to be successful, had to be based on a large volume of individual loans. This was necessary (a) to diversify risks and reduce the percentage of uncollectible loans and (b) to achieve low unit costs which were essential to make the service possible at the rates proposed. For a mass operation uniformity of procedure and treatment were also important. The organization to be provided thus required—

1. Ready availability of the service to the public throughout the branches of the Bank.
2. Facilities capable of processing a large volume of individually small loans.
3. Uniformity of treatment and procedure.
4. Centralized bookkeeping.
5. Centralized collection supervision.

To ensure that all these requirements were met centrally-located Personal Loan Departments were organized and commenced operation in June 1936.

METHOD OF OPERATION

Each branch was equipped to receive applications for Personal Loans, complete all the information required and send them to its central Personal Loan Department. These Departments were established in Halifax, Montreal,

Toronto, Winnipeg, Calgary and Vancouver. Each application required the approval of the Personal Loan Department concerned before the loan was made and in this way the branch was relieved both of responsibility for and collection of the loan. For its services the branch was allowed a percentage of the revenue from the loan. The development of experienced personnel in this field has since enabled the Personal Loan Departments to authorize many branches to make loans, under a fixed pattern, immediately for account of the Departments.

To make the service fill the purpose for which it was designed branches were instructed that borrowers who could offer good security or could otherwise qualify for an ordinary bank loan should have their needs served by the branch itself and not by the Personal Loan Departments. Under the Bank Act, it was not possible to take chattel mortgage security, the kind of security customarily taken by companies operating under the Small Loans Act, and it was therefore decided to require loans to carry the guarantee of one or two people apart from the borrower. The reason for this was not simply to have an alternative source of repayment in case the borrower defaulted but was rather based on the view that (a) if a borrower unknown to the Bank did not have one or two friends willing to support his obligation there was need for caution and (b) a borrower who might otherwise default will frequently maintain payments to avoid embarrassing a guarantor, or alternatively a guarantor will often see to it that a borrower pays when the Department's collection service is unable to collect. With experience gained through the years, however, an increasing number of non-guaranteed loans has been made and the aggregate now amounts to approximately 40% of the total.

It was obvious that loans of this type would involve a cost high in relation to the amount involved. For the initial investigation of credit-worthiness—verification of the applicant's position, length of employment, steadiness of earnings and past credit record—it was necessary to maintain a specially trained staff. Regular monthly payments were an essential feature, as the sole available source of repayment was earnings, and this involved a heavy volume of bookkeeping entries. A specially trained collection staff was also necessary to collect from tardy or negligent borrowers so as to keep losses from bad debts at the minimum. This was of great importance, as otherwise the cost of maintaining the service would increase.

Scale of Charges: A scale of charges was designed which it was thought would cover operating costs with a small margin of profit provided that the utmost care was used in controlling expense. These charges were based on a discount rate of 6% per annum for loans payable up to twelve, eighteen or twenty-four months. The borrower was required to undertake to make equal monthly deposits in a Savings account to provide an amount sufficient to repay the loan at maturity.

Example:

Loan for one year	\$240.00
Discount charge @ 6%	14.40
Net proceeds paid to borrower	<u>\$225.60</u>

Deposits of \$20 monthly are required in a Savings account which will accumulate a balance sufficient to repay the loan at the end of one year. The total amount required to be repaid in this example is \$240. Interest is paid to the borrower on the Savings account at the current rate.

If a borrower desires to extend or enlarge a loan before maturity a service charge of \$1.00 is normally made to offset in part the cost of the additional work involved.

If a loan is fully prepaid more than two weeks prior to maturity a rebate in full of the unearned discount is granted.

When discussions have taken place before the Committee in the past there has sometimes been an interest expressed in the "effective rate of interest". There are five separate methods of calculating "effective rates" all producing a different result (see volume 10 page 305 of the evidence before this Committee 1938). Although the charge for a Personal Loan is expressed for convenience as a rate of discount, the expression is actually misleading as the charge is only to a small extent to recover interest cost; by far the greater cost is in direct operating expense quite apart from the cost of funds in use. This is evident from the classification of expense recorded in the statement of operating results on page 16. This statement shows the average yield on loans since the inception of the Plan to be 10·46%.

Life Insurance: Life insurance equivalent to the net liability of each borrower is provided under the terms of a group life insurance policy. Thus, if a borrower should die during the currency of a loan, the amount owing is retired from the proceeds of the life insurance and the estate of the borrower and the guarantors have no further liability. The cost of this insurance, which is paid by the borrower, varies according to the loss experience of the insurance company under the group policy. The high point has been 50c per annum for each \$100 of a loan and the low point 20c. The present cost is 25c per annum for each \$100 of a loan. From the inception of the plan in 1936 until 31st May, 1953 total death claims paid numbered 3,577, aggregating \$537,310.

CLASSIFICATION OF LOANS

Classifications of loans by—

—purpose	page 1094
—occupation of borrower	page 1095
—amount of loan	page 1096
—borrower's previous banking contact	page 1097

are given to illustrate the nature of the loaning business conducted under The Personal Loan Plan.

CLASSIFICATION OF LOANS

By Purpose
Table "1" records the classification of loans by purposes from June 1936 to October 31, 1953, with separate figures for the year ended October 31, 1953:
TABLE "1"

	JUNE 1936 TO OCTOBER 31, 1953			YEAR ENDED OCTOBER 31, 1953		
	Number	%	Amount	Number	%	Amount
Medical, dental and hospital bills.....	178,340	18.70	\$ 28,135,944	6,065	10.69	\$ 1,542,933
Consolidation of debts.....	166,248	17.43	30,512,672	7,076	12.47	2,835,490
Outside loan liquidation.....	25,644	2.69	8,098,860	2,176	3.83	1,310,231 ^a
Taxes, real estate mortgages and interest, insurance premiums.....	90,818	9.52	19,234,463	2,826	4.98	986,703
Travel and education.....	59,722	6.26	10,061,716	2,932	5.17	780,743
House improvement, expenses, furnishings and equipment.....	177,398	18.60	46,003,291	15,145	26.69	6,702,358
Clothing.....	22,893	2.40	3,552,222	848	1.49	174,682
Motor cars.....	71,195	7.46	30,466,804	7,782	13.71	6,029,848
Miscellaneous.....	161,582	16.94	72,395,937	11,895	20.97	8,837,981
Total.....	953,840	100.00	\$248,461,909	56,745	100.00	\$29,200,969

The first four items in the Table, representing assistance in meeting personal liabilities, aggregate 48% in number of the loans made under the Plan since its inception.

CLASSIFICATION OF LOANS

BY OCCUPATION OF BORROWER
Table "2" records the occupations of borrowers from June 1936 to October 31, 1953 with separate figures for the year ended October 31, 1953:

TABLE "2"

	JUNE 1936 TO OCTOBER 31, 1953			YEAR ENDED OCTOBER 31, 1953		
	Number	% of number	Amount	% of amount	Number	% of number
Labourers and artisans.....	435,629	45.67	\$100,088,143	40.28	30,038	52.93
Office, clerical and other non-manual workers.....	243,558	25.54	55,613,560	22.39	10,821	19.07
Foremen, managers, superintendents.....	117,258	12.29	42,142,994	16.96	8,311	14.65
Salesmen, professional people, teachers, sundries.....	157,395	16.50	50,617,212	20.37	7,575	13.35
Total.....	953,840	100.00	\$248,461,909	100.00	56,745	100.00
						% of amount
						\$13,885,768
						5,047,104
						5,508,421
						4,759,676
						100.00

CLASSIFICATION OF LOANS

By Amount
Table "3" classifies by amount individual loans made from June 1936 to October 31, 1953 with separate figures for the year ended October 31, 1953. A classification of loans exceeding \$500 was not maintained prior to the year ended October 31, 1953:

TABLE "3"

	June 1936-October 31, 1953				Year ended October 31, 1953		
	Number	%	Amount		Number	%	Amount
Under \$100.....	153,947	16.14	\$10,819,740	Under \$100.....	1,770	3.12	129,992
Between \$100 and \$200.....	371,771	38.98	50,125,952	Between \$100 and \$200.....	10,299	18.15	1,488,137
“ \$200 and \$500.....	313,032	32.82	92,638,444	“ \$200 and \$500.....	23,102	40.71	7,360,419
Over \$500.....	115,090	12.06	94,877,773	“ \$500 and \$1,000.....	13,935	24.56	9,532,650
				“ \$1,000 and \$1,500.....	5,268	9.28	6,179,123
				“ \$1,500 and \$2,000.....	1,671	2.94	2,839,108
				“ \$2,000 and \$2,500.....	588	1.04	1,315,982
				Over \$2,500.....	112	.20	355,578
	953,840	100.00	\$248,461,909		56,745	100.00	\$29,200,969
			100.00				100.00

The average amount of loans made during the entire period was \$260. The trend, however, has moved toward larger loans and the average for the year ended October 31, 1953 was \$515. This apparently follows from higher wages and salaries with increased costs of goods and services in more recent years.

CLASSIFICATION OF LOANS

By borrower's previous banking contact

Borrowers under the Personal Loan Plan are not restricted to customers of The Canadian Bank of Commerce. An analysis of loans made during the year ended July 31, 1953 based on banking contacts of borrowers shows:

Table "4"

<i>Customers with</i>	<i>Number</i>	<i>Percentage</i>	<i>Amount</i>
No bank accounts	20,549	35·7	\$ 7,574,915
Accounts with other Canadian banks	8,545	14·9	4,805,163
Accounts with The Canadian Bank of Commerce	28,426	49·4	16,288,931
Total	57,520	100·0	\$28,669,009

LOANS TO INDIVIDUAL BORROWERS

It has been suggested on some occasions that loans may be placed under the Personal Loan Plan which might otherwise be made by branches at lower rates. As indicated on page 2 this would be contrary to the policy of the Bank in effect from the inception of the Plan. The tables on page 10 provide an analysis of this subject.

The total of loans of The Canadian Bank of Commerce compared with the total of loans of all banks is given in Table "5" to bring into perspective the aggregate of "loans to individuals"* recorded in Table "6".

Table "6" recording the total of "loans to individuals" shows—

- (a) the average of The Canadian Bank of Commerce loans in this category to be higher than the average of other banks.
- (b) that when the average of loans under The Canadian Bank of Commerce Personal Loan Plan is deducted from the average of "loans to individuals" the remaining amount bears about the same ratio to all loans as the average of all other banks.

This points to the conclusion that loans under The Canadian Bank of Commerce Personal Loan Plan represent a type of business not placed in the ordinary course of business on branch books either by The Canadian Bank of Commerce or by other banks.

Table "7" contains a further analysis of "loans to individuals" at branches compared with those under the Personal Loan Plan. It is evident that the branches have a large instalment loan business in the form of ordinary bank loans on their own books. The policy of the Bank thus is carried out in practice, viz., that all loans which can qualify as ordinary bank loans are placed on branch books and those which do not so qualify are placed under the Personal Loan Plan.

*"Loans to individuals for other than business purposes not when made fully secured by marketable stocks and bonds" from the classification of loans published in the Bank of Canada Statistical Summary.

ANALYSIS OF THE CANADIAN BANK OF COMMERCE "LOANS TO INDIVIDUALS"* AND PROPORTION TO TOTAL LOANS IN CANADA

Date	Total as in Table "6,"	%	Loans under Personal Loan Plan	%	Loans to individuals at Branches			Total of loans to individuals at branches	%
					Instalment	%	Other		
30 Sept. 1949.....	\$48,170	10.61	\$18,419	4.06	\$14,622	3.22	\$15,129	\$29,751	6.55
30 Sept. 1950.....	61,065	12.40	23,226	4.72	19,600	3.98	18,239	37,839	7.68
29 Sept. 1951.....	61,349	10.10	22,607	3.72	20,701	3.41	18,041	38,742	6.38
30 Sept. 1952.....	61,547	9.70	20,211	3.19	21,942	3.46	19,394	41,336	6.51
30 Sept. 1953.....	78,302	10.73	27,627	3.79	27,601	3.78	23,074	50,675	6.94
Average.....	\$62,087	10.64	\$22,418	3.84	\$20,893	3.58	\$18,776	\$39,669	6.80

* (Loans to individuals for other than business purposes, not, when made, fully secured by marketable stocks and bonds.)

CLASSIFICATION OF LOANS BY SECURITY

Comparison with companies operating under the Small Loans Act

Table "8" on page 12 shows that Small Loan companies hold security in the form of chattel mortgages for 69 per cent of their loans—a type of security not available to the Personal Loan Plan. The only security available to the Personal Loan Plan has been in the form of endorsements of guarantees and loans so secured amounted to 60 per cent of the total loans, compared with a negligible amount in the Small Loan companies. The unsecured loans amounted to 39 per cent of the total in the Personal Loan Plan and 29 per cent of the total in the Small Loan companies.

Under these circumstances a somewhat larger percentage reserve for bad debts in the Personal Loan Plan has been considered necessary as compared with the recently reported figures of the Small Loan companies.

CLASSIFICATION OF LOANS BY SECURITY

Comparative classification

Table "8"

	Small Loan Companies December 31, 1952		Personal Loan Plan July 31, 1953	
	Amount	Percentage	Amount	Percentage
Chattel				
Mortgages ..	\$101,990,303	69.06%	—	—
Other Security .	675	—	—	—
Endorsed notes (Guarantors)	2,742,713	1.86	\$17,301,846	60.35%
Total Secured ..	\$104,733,691	70.92	\$17,301,846	60.35
Unsecured	42,941,094	29.08	11,367,163	39.65
Total	\$147,674,785	100.00%	\$28,669,009	100.00%

RESERVES FOR BAD DEBTS

Comparison with Companies operating under the Small Loans Act

The most recent available figures for the reserves for bad debts in comparison with and as a percentage of loans outstanding for the Personal Loan Plan and companies operating under the Small Loans Act are shown on Table "9".

The reserve for bad debts should be considered in relation to the actual loss experienced. From the inception of the Plan until October 31, 1953 the total of loans written off was \$380,378, of which \$157,058 was subsequently collected, leaving a net loss of \$223,320. This is approximately 10% of the total loans made—\$248,461,909. Thus, on past experience alone, and disregarding other considerations, the reserve at present held may seem unnecessarily high. The payment record, however, has been achieved during a period of very high employment. Under such conditions it would have been less than prudent not to build an adequate reserve for the future.

The reserve charged against earnings for bad debts has been reduced at intervals in accordance with experience gained and has been established at 1/4% of funds employed for the current fiscal year. Losses currently appear to be running at about this rate. If loss experience should exceed this level, the rate will be increased.

Table "9"

	Loans Outstanding	Reserve for Bad Debts	Percentage of Reserve to Loans
Personal Loan Department 1953 .	\$18,342,379 (net)	\$ 734,509	4.00%
Small Loan companies 1952* .	67,611,502	1,859,629	2.75%

* As reported to Superintendent of Insurance.
Figures relate to "small loans" only.

EARNINGS AND COSTS OF THE PERSONAL LOAN PLAN

Tables "10" and "11" on pages 15 and 16 show earnings and operating costs under the Personal Loan Plan and the net profit derived from the operation.

The earnings and costs represent the aggregate of the Personal Loan Departments except that "other expenses" includes salaries and other costs incurred at branches. To verify the accuracy of the cost accounting used in arriving at the expense incurred at branches the methods used were examined and tested by chartered accountants who reported:

We are of the opinion that the charges shown for "expenses—branches" in the statements of results for the Personal Loan Plan of The Canadian Bank of Commerce represent a fair and reasonable share of the operating expenses of the branches applicable to the personal loan business.

Present indications are that the operating profit ratio will decline during 1954 due to—

(a) an increase in "interest paid on Savings accounts" estimated at .21%

(b) an increase in "cost of funds" estimated at .35%

These will be partially offset by a reduction in "reserve for bad debts" estimated at .20%.

The number of employees working exclusively in the Personal Loan Departments is 140. This does not include employees working wholly or partly on personal loans throughout the branch system.

EARNINGS AND COSTS OF THE PERSONAL LOAN PLAN

YEARS ENDED OCTOBER 31, 1953 AND 1952

TABLE 10.

	1953		1952	
	Amount	Percentage yield on net loans outstanding	Amount	Percentage yield on net loans outstanding
EARNINGS				
Interest Earned.....	\$ 1,528,867	9.82%*	\$ 1,257,742	11.31%
Less interest paid on Savings deposits....	98,563	.63*	97,945	.88
Interest earned, net, on loans.....	\$ 1,430,304	9.19%	\$ 1,159,797	10.43%
Service Charges.....	21,096	.13	20,795	.19
Total Earnings.....	\$ 1,451,400	9.32%	\$ 1,180,592	10.62%
OPERATING COSTS				
Salaries.....	\$ 336,502	2.16%	\$ 311,717	2.80%
Advertising.....	4,056	.03	3,692	0.4
Other Expenses (including salary cost and other expense at branches).....	387,749	2.49	304,804	2.74
Expenses.....	\$ 728,307	4.68%	\$ 620,213	5.58%
Cost of funds.....	334,028	2.15	232,800	2.09
Total Operating Costs.....	\$ 1,062,335	6.83%	\$ 853,013	7.67%
Reserve for Bad Debts.....	63,291	.40	52,167	.47
Total Costs.....	\$ 1,125,626	7.23%	\$ 905,180	8.14%
Operating Profit before Income Tax.....	\$ 325,774	2.09%	\$ 275,412	2.48%
Income Tax.....	153,179	.98	137,266	1.24
Net Profit after Income Tax.....	\$ 172,595	1.11%	\$ 138,146	1.24%
Daily average of loans outstanding.....	\$25,468,251		\$21,004,598	
Less daily average of unearned discounts....	1,510,379		911,083	
	\$23,957,872		\$20,093,515	
Less daily average of Savings deposits.....	8,391,739		8,972,813	
Net Loans Outstanding.....	\$15,566,133		\$11,120,702	

* Accruals of interest earned and interest due on deposits are tested by actual calculation periodically. 1953 was a test year and the detailed calculation caused an adjustment in interest yield on loans and interest costs of deposits to levels somewhat below normal experience.

EARNINGS AND COSTS OF THE PERSONAL LOAN PLAN

ANNUAL AVERAGE FROM INCEPTION OF PLAN, JUNE 1936 TO OCTOBER 31, 1953

TABLE "11"

	Amount	Percentage yield on net loans outstanding
<i>Earnings</i>		
Interest Earned.....	\$ 740,208	10.49%
Less interest paid on Savings deposits.....	50,784	.72
Interest earned, net, on loans.....	\$ 689,424	9.77%
Service Charges.....	48,741	.69
Total Earnings.....	\$ 738,165	10.46%
<i>Operating Costs</i>		
Salaries.....	\$ 195,390	2.77%
Advertising.....	10,360	.15
Other Expense (including salary cost and other expenses at branches)	229,512	3.25
Expenses.....	\$ 435,262	6.17%
Cost of funds.....	144,628	2.05
Total Operating Costs.....	\$ 579,890	8.22%
Reserve for Bad Debts.....	54,997	.78
Total Costs.....	\$ 634,887	9.00%
Operating Profit before Income Tax.....	\$ 103,278	1.46%
Income Tax.....	48,703	.69
Net Profit after Income Tax.....	\$ 54,575	.77%
Daily average of loans outstanding.....	\$12,401,185	
Less daily average of unearned discounts.....	729,936	
Less daily average of Savings deposits.....	\$11,671,249	
Net Loans Outstanding.....	4,613,728	
	\$7,057,521	

EARNINGS AND COSTS OF THE PERSONAL LOAN PLAN

Comparison with companies operating under the Small Loans Act

As the business conducted under the Personal Loan Plan and by companies operating under the Small Loans Act is similar, comparisons of earnings and costs have been constructed and are exhibited in Tables "12" and "13" on pages 18 and 19. The parts of Tables "12" and "13" relating to companies operating under the Small Loans Act have been derived from figures quoted in the Report of the Superintendent of Insurance entitled "Small Loan Companies and Money Lenders" for the years 1952 and 1951.

These comparisons are made not to offer any commentary on the operations of the Small Loan companies, which have obviously filled a public need in a high-cost field. The comparisons do indicate, however, that extreme economy in operations has been necessary under the Personal Loan Plan. During the past 18 years the annual operating results of the Personal Loan Plan showed a loss in each of five years and a net profit of less than \$50,000 in each of six years. It is apparent that if expenses in the Personal Loan Department had not been restricted to a low level compared with the Small Loan companies the Department would have operated at a heavy loss throughout the period.

EARNINGS AND COSTS OF THE PERSONAL LOAN PLAN

COMPARISON WITH COMPANIES OPERATING UNDER THE SMALL LOANS ACT:

TABLE "12"

	Small Loan Companies Year ended December 31, 1952		Personal Loan Plan Year ended October 31, 1952	
	Amount	% Yield on Loans Outstanding	Amount	% Yield on Net Loans Outstanding
EARNINGS:				
Interest Earned.....	\$ 15,078,330	23.42%	\$ 1,159,797	10.43%
Service Charges.....	6,945	.01	20,795	.19
Total Earnings.....	\$ 15,085,275	23.43%	\$ 1,180,592	10.62%
OPERATING COSTS:				
Salaries.....	\$ 3,655,814	5.68%	\$ 311,717	2.81%
Advertising.....	764,596	1.19	3,692	.03
Other Expenses.....	2,498,858	3.88	304,804*	2.74
Expenses.....	\$ 6,919,268	10.75%	\$ 620,213	5.58%
Cost of funds.....	1,975,894	3.07	232,800	2.09
Total Operating Costs.....	\$ 8,895,162	13.82%	\$ 853,013	7.67%
Reserve for Bad Debts.....	166,440	.26	52,167	.47
Total Costs.....	\$ 9,061,602	14.08%	\$ 905,180	8.14%
Operating Profit before Income Tax.....	\$ 6,023,673	9.35%	\$ 275,412	2.48%
Income Tax.....	3,162,076	4.91	137,266	1.24
Net Profit after Income Tax....	\$ 2,861,597	4.44%	\$ 138,146	1.24%
CALCULATION OF LOANS OUTSTANDING—				
SMALL LOAN COMPANIES:				
Balance of small loans beginning of year.....	\$ 61,133,863			
Balance of small loans end of year...	67,611,502			
Total.....	\$128,745,365			
Average.....	\$ 64,372,682			
PERSONAL LOAN PLAN:				
Daily average of loans outstanding.....			\$ 21,004,598	
Less daily average unearned interest.....			911,083	
Less daily average Savings deposits.....			\$ 20,093,515	
			8,972,813	
Net Loans Outstanding.....			\$ 11,120,702	

* Including salary cost and other expense at branches.

EARNINGS AND COSTS OF THE PERSONAL LOAN PLAN

COMPARISON WITH COMPANIES OPERATING UNDER THE SMALL LOANS ACT:

TABLE "13"

	Small Loan Companies Year ended December 31, 1951		Personal Loan Plan Year ended October 31, 1951	
	Amount	% Yield on Loans Outstanding	Amount	% Yield on Net Loans Outstanding
EARNINGS:				
Interest Earned.....	\$ 12,863,924	22.77%	\$ 1,408,757	10.12%
Service Charges.....	7,443	.01	20,399	.14
Total Earnings.....	\$ 12,871,367	22.78%	\$ 1,429,156	10.26%
OPERATING COSTS:				
Salaries.....	\$ 3,057,056	5.41%	\$ 301,962	2.17%
Advertising.....	596,179	1.06	6,987	.05
Other Expenses.....	2,470,156	4.37	308,359*	2.21
Expenses.....	\$ 6,123,391	10.84%	\$ 617,308	4.43%
Cost of funds.....	1,572,082	2.78	299,427	2.15
Total Operating Costs.....	\$ 7,695,473	13.62%	\$ 916,735	6.58%
Reserve for Bad Debts.....	229,109	.41	62,926	.46
Total Costs.....	\$ 7,924,582	14.03%	\$ 979,661	7.04%
Operating Profit before Income Tax.....	\$ 4,946,785	8.75%	\$ 449,495	3.22%
Income Tax.....	2,486,363	4.40	196,343	1.40
Net Profit after Income Tax....	\$ 2,460,422	4.35%	\$ 253,152	1.82%
CALCULATION OF LOANS OUTSTANDING—				
SMALL LOAN COMPANIES:				
Balance of small loans beginning of year.....	\$ 51,864,421			
Balance of small loans end of year...	61,133,863			
Total.....	\$112,998,284			
Average.....	\$ 56,499,142			
PERSONAL LOAN PLAN:				
Daily average of loans outstanding.....			\$ 25,349,690	
Less daily average unearned interest.....			1,313,856	
Less daily average Savings deposits.....			\$ 24,035,834	
			10,110,464	
Net Loans Outstanding.....			\$ 13,925,370	

* Including salary cost and other expense at branches.

COMMENT

As the Personal Loan Plan offers facilities to the public similar to the Small Loan companies, but at much lower cost, it is natural to seek reasons for its failure to show greater growth. There is no single answer but the following observations suggest an explanation:

1. The Small Loan companies by taking chattel mortgage security do not need to require endorsers or guarantors. This enables borrowers to preserve greater privacy about their affairs.
2. The relatively low level of earnings under the Personal Loan Plan has not permitted or warranted adequate advertising. For example, advertising costs of the Personal Loan Plan in 1951 and 1952 totalled \$10,679 while the outlays of the Small Loan companies totalled \$1,360,775.
3. Part of the reason for the low level of advertising expenditure, however, derives from policy. During the period of voluntary credit restriction of 1951/1952 and in earlier years of full employment the Bank did not seek to expand personal loan volume, believing that this was not, at that time, in the public interest. It is doubtful, however, whether this had much effect other than to permit a larger volume of loans to go to the Small Loan companies.
4. The element of cost is probably not a significant consideration in the minds of the majority of small loan borrowers.

The Personal Loan Plan of The Canadian Bank of Commerce was created to provide a necessary service to the public at the lowest cost consistent with an economic operation; its methods of operation must, of course, conform with legal opinions upon which the scale of charges is based. As previously mentioned, the present basis is not sufficient to permit the necessary publicity and development in rendering service of greatest breadth, but it is not suggested that a scale of charges approaching the level sanctioned under the Small Loans Act should be considered. Experience has shown that the Personal Loan Plan of The Canadian Bank of Commerce can provide an effective service at lower rates and it has also shown that authority to take security in the form of chattel mortgages is a necessary condition to the providing of comprehensive personal loan facilities.

Canada. Banking and Finance
Standing Committee on, 1954

HOUSE OF COMMONS

First Session—Twenty-second Parliament, 1954

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: DAVID A. CROLL, *Esq.*

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 23

Decennial Revision of the Bank Act

TUESDAY, APRIL 27, 1954

(Morning Sitting)



WITNESS:

The Honourable Lucien Maynard, Q.C., Attorney General of Alberta.

STANDING COMMITTEE
ON
BANKING AND COMMERCE

Chairman: David A. Croll, Esq.

and
Messrs.

Applewhaite,	Follwell,	McMillan,
Arsenault,	Fraser (<i>Peterborough</i>),	Michener,
Ashbourne,	Fraser (<i>St. John's East</i>),	Mitchell (<i>London</i>),
Balcom,	Fulton,	Monteith,
Benidickson,	Gagnon,	Nickle,
Bennett (<i>Grey North</i>)	Hanna,	Noseworthy,
Boucher (<i>Restigouche-</i>	Hellyer,	Philpott,
<i>Madawaska</i>),	Henderson,	Picard,
Breton,	Huffman,	Pouliot,
Cameron (<i>Nanaimo</i>),	Hunter,	Quelch,
Cannon,	Johnson (<i>Kindersley</i>),	Robichaud,
Cardin,	Johnston (<i>Bow River</i>),	Rouleau,
Crestohl,	Low,	Stewart (<i>Winnipeg</i>
Croll,	Macdonnell,	<i>North</i>),
Dufresne,	MacEachen,	Tucker,
Dumas,	Macnaughton,	Weaver,
Fleming,	Matheson,	Wood.

R. J. GRATRIX,
Clerk of the Committee.

NOTICE OF MOTION

TUESDAY, April 6, 1954.

Mr. Macnaughton—On the Clause by Clause consideration of Bill No. 338, An Act respecting Banks and Banking—That Clause 21 of Bill 338 be amended by adding thereto the following new subclause (4):

(4) A person is not eligible to be elected or appointed a director after the first day of July, 1959, if he has reached the age of seventy-five years.

CORRIGENDUM

Minutes of Proceedings and Evidence No. 22, Thursday, April 8, 1954, Appendix "C", page 1098, Table 6:

In the fifth line under the column headed "All Banks Except The Canadian Bank of Commerce" the amount 166,553, should read 166,453;

In the first line of the third column of percentages the figure 6·61, should read 6·11.

MINUTES OF PROCEEDINGS

TUESDAY, April 27, 1954.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Balcom, Benidickson, Cannon, Crestohl, Fleming, Follwell, Fraser (*Peterborough*), Hellyer, Henderson, Hunter, Low, Johnston (*Bow River*), Macdonnell, McMillan, Michener, Noseworthy, Philpott, Pouliot, Quelch, Stewart (*Winnipeg North*), Tucker, Weaver, Wood.

In attendance: The Honourable Lucien Maynard, Q.C., Attorney General of Alberta; Mr. C. F. Elderkin, Inspector General of Banks; Mr. G. K. Bouey, Assistant Chief, Research Department, Bank of Canada; Mr. T. H. Atkinson, President of the Canadian Bankers' Association and Vice-President and General Manager of the Royal Bank of Canada; Mr. Arthur C. Jensen, General Manager of the Bank of Montreal; Mr. C. S. Frost, Vice-President and General Manager of the Bank of Nova Scotia; Mr. William Kerr, General Manager of the Bank of Toronto; Mr. Neil J. McKinnon, General Manager of The Canadian Bank of Commerce; Mr. F. N. Boyer, Vice-President and General Manager of The Provincial Bank of Canada; Mr. A. C. Ashforth, Vice-President and General Manager of The Dominion Bank; Mr. John S. Proctor, General Manager of the Imperial Bank of Canada; Mr. W. T. G. Hackett, Assistant General Manager of The Bank of Montreal; Mr. J. A. Fiott, Assistant to the General Manager of The Bank of Nova Scotia; Mr. C. B. Neapole, Assistant General Manager of The Royal Bank of Canada; Mr. J. D. Gibson, Assistant General Manager of The Bank of Nova Scotia; Mr. A. T. Lambert, Assistant General Manager of The Bank of Toronto; Mr. Bernard Normandin, Assistant General Manager of The Provincial Bank of Canada; Mr. F. A. Dulude, Assistant General Manager of the Banque Canadienne Nationale.

The Committee resumed consideration of Bill No. 297, An Act to amend the Bank of Canada Act, and Bill No. 338, An Act respecting Banks and Banking.

The Chairman brought to the attention of the Committee that certain typographical errors in the Appendices to the Minutes of Proceedings and Evidence, No. 20, Thursday, April 1, 1954, and No. 21, Tuesday, April 6, 1954, were of sufficient importance to warrant the ordering of a reprint of the said Appendices.

Ordered,—That Appendix "A", (being Exhibit No. 28) to the Minutes of Proceedings and Evidence, No. 20, of April 1, 1954, and Appendices "A" (being Exhibits 29 and 30) and "B" (being a document entitled: "Proposed Amendments to Bill 338, An Act Respecting Banks and Banking") to the Minutes of Proceedings and Evidence, No. 21, of Tuesday, April 6, 1954, be reprinted as an appendix to this day's evidence.

(see Appendix "A")

Mr. Elderkin tabled the following document, which is to be found as Appendix "B" to this day's evidence:

Exhibit No. 33: Rates of Loss Experience on Securities, Loans and Other Investments for the Fifteen Year Periods ended in each of the Years 1944 to 1953.

The Chairman placed on the record a letter received from the Board of Control of the City of Toronto with respect to the proposal before the Committee that the Bank Act be amended to permit the Chartered Banks to secure loans by the taking of chattel mortgages.

(See evidence)

The Honourable Lucien Maynard was called and made a submission, on behalf of the Government of the Province of Alberta, with respect to the Bills under consideration.

At 1.00 o'clock p.m. the Committee adjourned to meet again at 3.30 o'clock p.m. this day.

R. J. GRATRICK,
Clerk of the Committee.

EVIDENCE

APRIL 27, 1954

11:00 a.m.

The CHAIRMAN: Gentlemen, I see a quorum. There are certain printing errors in exhibits 28, 29 and 30 and the proposed amendments to Bill 338, that is Appendix B to proceedings No. 21. They are of such importance that they need reprinting, and I suggest to the committee that that be done. Does it meet with the approval of the committee?

Agreed.

Mr. Elderkin now has an exhibit he would like to file.

Mr. ELDERKIN (*Inspector-General of Banks*): Mr. Chairman, I am filing an exhibit showing "Rates of loss experience on securities, loans and other investments for the fifteen year periods ended in each of the years 1944 to 1953."

(See exhibit No. 33).

The CHAIRMAN: Gentlemen, I have a letter from the Board of Control of the city of Toronto. It is short, I will read it.

APRIL 23, 1954.

Gentlemen:

On April 21, 1954, the Board of Control for the City of Toronto adopted the following motion by Controller Balfour, viz:

That whereas there is a proposal before the Banking Committee of the House of Commons to allow chartered banks to make small loans to individuals upon mortgage of household furniture and other chattels; and whereas this would be helpful to individuals requiring such assistance at a lesser rate of interest than is charged by loan companies.

Be it therefore resolved that the Board of Control endorse this proposal and request the Banking Committee of the House of Commons to give favourable consideration to the matter and give effect to the necessary legislation to enable such loans to be made by chartered banks.

Yours truly,
(Signed) G. A. Weale
City Clerk.

This morning we are privileged to have with us the Hon. Lucien Maynard, Attorney-General of the Province of Alberta. He will speak on behalf of the Government of Alberta.

Hon. Lucien Maynard, Q.C., Attorney-General of the Province of Alberta, called:

The CHAIRMAN: Gentlemen, you now have before you a rather extensive brief and you will notice, if you turn to page 4, that it is broken down into three main headings, which you will see at the bottom of page 4.

I—Historical development of Canadian banking legislation and examination of the operation of chartered banks under existing legislation.

That includes pages 5 to 31.

II—Defects or weaknesses of the present Canadian banking system and the effect on the Canadian economy.

That includes pages 32 to 77.

III—Proposals to amend the Bank Act and the Bank of Canada Act and the effect of these proposals on the technical operation of the Canadian banking system as well as on the Canadian economy.

That includes pages 78 to 120.

Then there are three proposals and the first proposal is covered from pages 78 to 85. The suggestion I make is that Mr. Maynard—and this meets with his approval—will summarize the first two headings and the first proposal, and then proceed to read beginning at page 86 to page 117 which are the two main proposals. In addition to that, there is a short introduction which he now desires to read. The questioning will start after he has finished presenting his brief.

Now, Mr. Maynard.

Mr. FLEMING: Mr. Chairman, is the whole brief going into the record?

The CHAIRMAN: Yes. The whole brief will go into the record. I am sorry I had not mentioned that fact. Kindly proceed, Mr. Maynard.

The WITNESS: Mr. Chairman and members of the committee, possibly I should apologize for the length of this brief but I felt it was rather difficult to put forward the proposals which we advocate without at the same time giving you the defects which the proposals are calculated to remedy. In our understanding of the weaknesses or defects of the Canadian banking system, it is necessary to understand something about the operation of that system.

I think you will find there are a few errors—typographical errors—in the brief as we go along. That is due to some extent to the fact that our session is on in Alberta and it has not been possible for me to do the proof reading personally. It might have been worse if I had done so. But I think you will notice them as we proceed.

Mr. Chairman, I appreciate the privilege of appearing before you to make representations on behalf of the government of Alberta in connection with the revision of the Bank Act and the Bank of Canada Act.

In the past our views on banking and money have been ridiculed. We have been scoffed at for advocating what has been called “funny money” or “fountain pen money”. Possibly, there was no stronger critic of our ideas than Stephen Leacock, the famous professor of economics at McGill University. I would like to quote one or two paragraphs from Stephen Leacock’s book, “Canada—The Foundation of its Future”, published in 1941, after Leacock’s retirement from McGill, and two years after Canada’s entry into World War II.

To this province (Alberta) were imported certain economic profundities of British fog, impossible for most people to understand, which in sunny Alberta, by force of prayer, turned into Alberta Social Credit. The theory is an expansion of the idea of living by taking in one another’s washing. It is suggested that if all the people collectively give twenty-five dollars each to all the people separately, then each of the separate people can call for work and goods from all the other people, whereby everybody has work and the work supplies everybody with bread. The theory is parallel to all the new doctrines of “priming the pump”, pensioning all old men who promise to spend every cent—in other words all the theory of “purchasing power”.

Shortly before he died, this same Stephen Leacock wrote an article which was published in *MacLean's Magazine* of May 1, 1943. Let me now give you by way of contrast the views held by Leacock just before his death:

But as between the two ideals both imperfect, of free competition and co-operative socialism, the war has greatly modified the ideas of many, of whom I am willing to be one. A man who hasn't changed any of his ideas since the war started is in the class of a man who hasn't changed his shirt—too conservative. The war has revealed to us the vast power of the co-ordinated effort of machine production, and enormous latent force we never realized.

Mr. POULIOT: Will you not change your mind on your death bed, Mr. Maynard?

The WITNESS: It could be, Mr. Pouliot.

A reading of this article will reveal that Stephen Leacock no longer ridicules the views we have been advocating in Alberta since 1935 about our monetary system. On the contrary Leacock has now become an ardent advocate of the "fountain pen" money. I will have more to say about Leacock later.

The last revision of the Bank Act was in 1944. I am convinced that like Leacock, the war must have changed many of your ideas about money. I am convinced also that regardless of divergent viewpoints which may have prevailed, you are prepared to hear our views impartially and give them every consideration. Were I not so convinced, I would not be here today.

On the other hand I want to assure you of our one purpose—the desire to help make this Canada of ours a more prosperous place in which all Canadians may live.

May I say right now that we have no quarrel with the men who operate our Canadian banks. They have done an outstanding job under the provisions of the Bank Act to look after the interests of their shareholders. Most of the leading heads of our banking institutions are men who have started at the bottom of the ladder and have worked their way up through all the various phases of banking administration. We pay tribute to the honesty, integrity and ability of these men. I repeat, they have done a wonderful job under the provisions of the Bank Act. The problem we must solve however, has little to do with the efficiency of those who operate the banking system. It is of a far more fundamental nature. It is a problem that goes to the very core of the banking system itself.

We propose to submit several concrete recommendations to amend both the Bank Act and the Bank of Canada Act. To assist you in understanding the nature and effect of these proposed amendments, I propose to deal at some length with the operations of the chartered banks today under the present Bank Act. With a fuller knowledge of how the present banking system functions, I am certain our proposals will not be difficult to understand.

As an illustration of what I mean, let me call your attention to the November, 1953, Monthly Letter published by the Royal Bank of Canada. This letter dealt with the Canadian banking system and starts off with the following statement:

The primary operations which banks perform in the community are the receipt of money, the re-lending of it to borrowers, and the facilitating of exchange. Through these services the banks assure the profitable use of all the purchasing power of the community and channel into every day use the savings of individuals while safeguarding those savings.

This statement if taken literally propagates a myth that I thought had been exploded years ago by many prominent people, bankers, economists, etc., yes, even by Mr. Graham Towers, governor of the Bank of Canada, when giving evidence before the Banking Committee in 1939. The myth is that the banks lend only the deposits of their customers.

There are many people who still think this is the case, mainly because the banks say it is so. Such propaganda has resulted in confusion and misinformation among the people about the banking system. I want to be clear on this point. The main function of banks today is not to safeguard deposits and "the re-lending" of these deposits. The main function of banks today is the creation and issue of money.

It is indeed surprising that the Royal Bank of Canada would make such a statement in the light of the clear-cut and emphatic statements made by Mr. Graham Towers before this same committee in 1939. On pages 455 and 456 of the record of the official proceedings before the committee we find these statements:

Mr. Towers: The banks cannot, of course, loan the money of their depositors. What the banks have done is to make loans and investments which result in a certain sum total of deposits. In respect to savings that amount is \$1,600,000,000 odd. Now what the depositors do with these savings is something quite beyond the control of the banks.

Q. You have agreed that banks do create money?

Mr. Towers: They, by their activities in making loans and investments create liabilities for themselves. They create liabilities in the form of deposits.

Q. You will agree with the statement that has been made that banks lend by creating the means of payment?

Mr. Towers: Yes, I think that is right.

These statements require no comment at this point.

In order to obtain a proper understanding of the recommendations we propose to make to amend our banking legislation, it is necessary to have some understanding of the weaknesses and defects of the existing banking system that must be remedied. These defects can best be recognized if we understand fully the principles governing the operation of the banking system today. I know of no better way to do this than to follow the development of the principles of banking through their various phases up to the present day. Consequently I propose to deal with the whole question of banking under three main headings namely:

- I. Historical development of Canadian banking legislation and examination of the operation of chartered banks under existing legislation.
- II. Defects or weaknesses of the present Canadian banking system and the effect on the Canadian economy.
- III. Proposals to amend the Bank Act and the Bank of Canada Act and the effect of these proposals on the technical operation of the Canadian banking system as well as on the Canadian economy.

Now, Mr. Chairman, Part I deals with two aspects of banking; that is to say, the historical development of banking and the present operation of the Canadian banking system under existing banking legislation.

The important point established in Part I is that under the first bank charters issued in Canada, banks were given the authority to issue notes up to three times the amount of their paid-up share capital while at the same time they were required to pay all their notes in specie when required to do so.

Today, under existing banking legislation, the banks may issue bank credit—or fountain-pen money—up to 20 times the amount of their cash reserves, although the actual practice is to limit the expansion of credit in relation to cash reserves to a ten to one ratio.

The second section of Part I deals in detail with such questions as cash reserves, bank deposits, and bank loans. In other words, it deals with the actual operation of the Canadian banks in Canada today.

I think, Mr. Chairman, that this is possibly all that needs to be said about Part I for the information of the members of the committee.

Mr. FLEMING: Could I ask a general question at this point?

The CHAIRMAN: Not until he finishes, Mr. Fleming.

Mr. FLEMING: I meant on this part of the brief.

The CHAIRMAN: No, not at the moment.

The WITNESS: Part II of the brief starts at page 32.

Mr. MACDONNELL: Mr. Chairman, we are going to have certain recommendations based on the theory and review of the banking system. This is a long and carefully prepared statement and today having only 24 hours in it, we may not all be able to read this in time before we are faced with the recommendations. I would like a fuller summary than you are allowing Mr. Maynard to give.

The CHAIRMAN: Mr. Macdonnell, I am not "allowing" him to give a summary. I said to Mr. Maynard that I thought it would be best if he summarized the first two chapters because they deal with the historical background.

Mr. MACDONNELL: But to summarize 30 pages in two or three minutes is not a complete summary.

The CHAIRMAN: That is up to Mr. Maynard. I am not limiting his summary. Mr. Maynard can take as long as he wishes to summarize.

The WITNESS: Mr. Chairman, as far as Part I is concerned, I think it is safe to say that the members of the Banking and Commerce committee are fully cognizant of the banking system today. I would be extremely disappointed if that were not so. The historical development of the banking system covered in Part I deals mainly with the review of banking legislation starting with the first charter issued to the Bank of Montreal and subsequent legislation thereafter. It is not a question of theory, it is straight actual fact—banking legislation. I do not think there is anything in theory to be found in Part I. The only place where anyone could possibly refer to anything relating to theory is the use of the expression "fountain pen money" as an alternative for "bank credit money." Now, that may be an opinion but, as I indicated in the introduction, even Stephen Leacock came to the point of referring to bank credit money as fountain pen money in the illustration he refers to in the article published in Maclean's magazine on May 1, 1943. If the members of the committee wish me to read the whole of Part I, I would be delighted to do so.

The CHAIRMAN: Just go ahead.

Mr. FLEMING: I know you do not want us to ask questions at this point, Mr. Chairman, but I have one question which I do not think runs counter to your ideas. There is a good deal of material here concerning the historical background of the banking system and I would like to know the sources from which the information is drawn.

The WITNESS: Every source of information is given.

Mr. FLEMING: I know there are specific references. I wondered about the background sources from which the material has been compiled?

The WITNESS: There are sources referred to in the brief.

Mr. FLEMING: At the bottom of page 64 of the brief I think there is a mistake. The last line reads:

After having been elected to power, R. B. Bennett kept his promise to call a special session of parliament and on September 10, 1935—

I think that should be 1930.

The CHAIRMAN: It is quite possible.

The WITNESS: Yes, it is 1930. I have the zero printed over the five in my copy.

The CHAIRMAN: It is in mine, too.

The WITNESS: Part II of the brief, commencing at page 32, could be said to deal with theory as well as with fact, and this is the part that possibly could be the subject of some controversy. In Part II we deal with two weaknesses or defects of the present banking system. The first weakness or defect dealt with is that the present banking system—not only the Canadian banking system but all banking systems—is a debt-creating system. All money put into circulation by the chartered banks is put into circulation as a debt bearing interest, the aggregate of which cannot be paid. There are two illustrations given in the first section of Part II to explain how money put into circulation as a debt by the chartered banks cannot be paid in the aggregate because according to the old Latin maxim, “*nemo dat quod non habet*”—a person cannot give what he has not got. If the banking system puts into circulation so many millions of dollars and requires the full payment of the money put into circulation along with interest then the interest can only be paid by going further into debt, borrowing money to pay the interest, or by repudiation, default or bankruptcy. This, of course, does not constitute payment but it does amount in some respects to an arbitrary settlement of outstanding liabilities. This debt creating feature of the banking system is dealt with at some length. I do not know if the committee wishes to have a long explanation, but the different aspects of debt—private and public debt—are dealt with in the brief. In so far as the public debt is concerned, the claim is made that public debts or national debts are never paid. There is one explanation referred to in the brief which as a matter of history is of some interest and that is that public debt is not paid because posterity does not pay it. We have not paid our own debt in Canada—the debt that has been accumulated by our predecessors. The debt we expect our successors to pay will not be paid any more than the debt accumulated by our predecessors that we have failed to pay. That is briefly the claim that is made in the first section of Part II of the brief; that the banking system is a debt-creating system under which debt cannot be paid in the aggregate. Individually, some people can pay off their obligations—some provinces and some states can pay off their obligations—but only at the expense of others. In the aggregate public debt cannot be paid.

Mr. MACDONNELL: This is purely a question of procedure, Mr. Chairman. May I ask whether statements of the public debt of various bodies—take for instance our own public debt and the provincial debts—establish the fact that there has never been any repayment?

The WITNESS: I did not say there has never been repayment, Mr. Chairman. There has been repayment from time to time, but I think the point is made that in spite of temporary repayment there has always been an accumulation of debt.

The second weakness in the Canadian banking system which is dealt with in the brief is that the banking system results in a deficiency of purchasing power which results in periodical depressions and periods of prosperity. There are different causes as a matter of theory advanced by different people as to why there is a deficiency of purchasing power in circulation. Some of these people, like Major Douglas, advocate there is never sufficient money paid out by way of wages, salaries and dividends to enable the people to buy back the total value of goods produced. Other people, like Mr. C. Marshall Hattersley advance a different theory. Other people—and this one is not mentioned in the brief—advance the theory that savings constitute a deficiency of purchasing power that is not available to buy goods. Regardless of the theory advanced—

and I am not particularly concerned about advocating any particular theory—the fact remains—and this I accept as a fact and I submit as a fact—that there is a deficiency in purchasing power in circulation at any given time which prevents people from buying goods that have been produced. We claim that this results in depressions.

There have been different theories advanced as to the causes of depression. Before the war we were told that one of the causes of depression was unemployment and if everyone were put to work the depression would be over. That has been found to be wrong. Another theory advanced for the cause of depression before the war in the early 1930's was over-production and we were told if we could get rid of over-production and surplus goods that exist then people would be put back to work producing more goods and that again we would have prosperity. I think it is now generally recognized that that theory was wrong; and call it a theory if you will but the submission we make in this brief is that the fundamental cause of depression is a lack of purchasing power or a deficiency of purchasing power in the hands of the consumer for the purpose of enabling the people to buy the goods that we are able to produce and have actually produced. The weakness in the banking system in this respect is that it is impossible for the banking system to put into circulation the money required to finance consumption, the money required to enable the people to buy the goods that have already been produced because, as is pointed out, the banks are not charitable institutions. The banks are in business for profit. They make their profit by lending money and charging interest thereon. There would be no profit to be made by the banking system in putting into circulation money to be used to finance the consumption of goods. That, Mr. Chairman, is a brief summary of the two weaknesses in the banking system that are dealt with at some length in the submissions contained in the brief.

Mr. HUNTER: Alleged weaknesses.

The WITNESS: Having established those weaknesses, Part III of the brief advances the proposals we believe are necessary to remedy these two weaknesses.

Proposal number one is dealt with at page 78. With your permission, Mr. Chairman, I could possibly summarize this proposal very briefly. This proposal deals with the gold standard. At the present time we are not operating on the gold standard, and consequently I believe this is simply a matter of some interest, but there is this point which I wish to emphasize that under the existing legislation the Governor General in Council has the authority to reimpose the gold standard at any time without reference to parliament. This would indicate that in the mind of government officials the occasion might arise in the future where it might be advisable to return to the gold standard. Our submission on this point is twofold: first of all, we should never return to the gold standard and secondly, if at any time Canada has to return to the gold standard it should not be by order in council passed by the Governor General in Council but by an Act of Parliament. Consequently our recommendation in this respect is that the legislation should be amended in order to prohibit the return to the gold standard and specifically to eliminate the authority of the Governor General in Council to put Canada back on the gold standard without reference to parliament.

Turning to page 86 of the brief, I think proposal number two and proposal number three are of such importance that they should be read in full.

Mr. PHILPOTT: Excuse me, I think you should start two pages earlier because that proposal about supplying money to foreign countries in exchange for their food is extremely important and everyone should have the full background.

The WITNESS: One of the arguments advanced for returning to the gold standard is that the gold standard is necessary for foreign trade.

Mr. PHILPOTT: I think the first part about the gold standard is understood by the committee but the other matters are of such importance I think the whole thing should be read.

The WITNESS: Thank you, Mr. Philpott. I will continue reading the brief.

PART I

HISTORICAL DEVELOPMENT OF CANADIAN BANKING LEGISLATION AND EXAMINATION OF THE OPERATION OF CHARTERED BANKS UNDER EXISTING LEGISLATION

Our object in discussing the operation of the chartered banks is to lay the foundation for the recommendation we propose to make later. We do not wish to delay the committee but we feel that to fully appreciate the principles governing the operation of the chartered banks today, it is necessary to review the development of banking, and particularly the development of Canadian banking legislation.

DEFINITION OF BANKING

What is banking?

The 1924 edition of *Webster's International Dictionary* of the English language at pages 178 and 179 gives us the following definition of "banker" and "banking":

- (a) "bank,—orig., the table, counter, or place of business of a money changer; now the building or office used for banking purpose... An establishment for the custody, loan, exchange, or issue of money, and for facilitating the transmission of funds by drafts or bills of exchange; an institution incorporated for performing one or more of such functions, or the stockholders (or their representatives, the directors), acting in their corporate capacity. *Bank of deposit*, a bank which receives money for safe keeping. *Bank of issue or circulation*, a bank which issues its own notes payable to bearer.
- (b) "banker—one (either a person or a corporation) who conducts the business of banking; one who, individually, or as a member of a company, keeps an establishment for the deposit or loan of money, or for traffic in money, bills of exchange, etc."
- (c) "banking—the business of a bank or of a banker. The *BUSINESS OF BANKING ORIGINALLY WAS THAT OF MONEY CHANGING*; at present banking, in general, consists in taking money on deposit subject to check or draft, loaning money, as by discounting notes and bills, issuing drafts, and any other associated form of general dealing in money or credit. One or more of these operations if carried on with the public in general, may be construed as banking."

Halsbury's Laws of England, 2nd edition, Vol. 1, contains at page 796, an article entitled "Business of banking" from which it would appear that banking today consists of the following operations:

1. receipt of money on current account;
2. receipt of money on deposit account;
3. collection of cheques;
4. collection of bills of exchange;
5. collection of other documents, e.g. money orders;

6. payment of cheques;
7. payment of bills accepted payable at a banker's;
8. issuing letters of credit and documentary bills;
9. advances by way of loans or overdrafts and taking security for same;
10. discounting bills;
11. providing safe custody for valuables.

In addition there are listed a number of obligations either direct or implied upon a banker.

The Encyclopedia Britannica, Vol. 3 at page 44 contains an article dealing with the function of a bank. These are covered by three main heads:

1. It provides safekeeping for people's money.
2. The bank provides a temporary investment for money, paying interest so long as the money is retained, and repaying the principal on its being claimed in accordance with the contract.
3. It provides a means of payment.

In connection with its function as providing a means of payment the Encyclopedia adds at page 44:

Payment is the process by which a debt is discharged. Money is the means established by law of discharging debts. The debtor has the right to pay his debt in money, and the creditor has the right to require payment in money. But the use of money may not be the most convenient means of payment either to the debtor or to the creditor...

...people do not want money except as a means of payment. For the major payments a transfer in a bank's books is a more convenient means than money. Consequently the creditors prefer not to have their credits paid off in money. They prefer to hold balances of bank credit or credit money, that is to say, debts due from the banker, which can be used as a means of payment.

The issue of credit money has become possibly the most important function of banks today. Credit and the transfer of credit from the account of one individual to another as a means of payment has virtually taken the place of bank notes. Bank notes consequently no longer occupy the importance they formerly held in the field of banking, especially in Canada where the chartered banks no longer enjoy the privilege of issuing notes.

The extent to which credit deposits have replaced money today for commercial transactions can be ascertained by a study of the report by the Royal Commission on Banking in 1933, commonly known as the British MacMillan Report (see pages 27 and 32 particularly), and also a study of the evidence given in 1939 by Graham Towers, Governor of the Bank of Canada before the Standing Committee on Banking and Commerce of the House of Commons which will be found in the minutes of Proceedings and Evidence respecting the Bank of Canada.

The method of paying debts by the use of a cheque on a credit deposit in a bank although well established now is a comparatively modern device. Before being used for this purpose, the cheque was used to authorize a bank to transfer money—either bank notes or specie—deposited with the banker to some other individual, and not for the transfer of credit deposits—

In order to fully understand the significance and the tremendous importance of this modern banking practice of issuing credit and dealing in credit deposits, it is necessary to review briefly the process through which banking has evolved to reach its present form.

2.—HISTORY OF BANKING

(a) General: (see Holdsworth's History of English Law, Vol. 8, pages 177-191)

Modern banking first started in Italy spreading from that country mainly to Holland and other places on the European continent and gradually started in the British Isles through the operations of the goldsmiths.

The first bankers were known as money-changers. Their main function was to provide for the safe transportation of money from one place to another, and to exchange the money of one country into that of another country.

Subsequently bankers accepted money on deposit for safe-keeping and undertook to return its equivalent in good sound money when required by the depositor. The bankers charged the depositor a fee for this service but after discovering they could lend the money held on deposit for gain, viz., interest, they commenced paying depositors a fee instead of charging them, in order to induce the public to deposit their money with them.

Upon receiving this money on deposit the bankers would issue a promissory note undertaking to repay on demand the amount deposited. The practice soon developed whereby the depositor, instead of presenting his note and demanding the return of his money so that he could meet his obligations, would transfer the banker's note to his creditor. The creditor could then take the note to the banker and obtain the money if he so wished.

The bankers realized there was very little demand for the actual money deposited with them—the people preferring to use the more convenient banker's note—so they commenced to issue more notes than they had money on deposit. The public soon discovered the fraud, immediately presented their notes for payment, and the bankers went bankrupt.

This fraudulent and dishonest practice on the part of the early banks was so widespread that the various states found it necessary to intervene to protect the general public. In 1584 out of 103 banks which had started in Venice, 96 had failed. The intervention of the state led to the establishment of State Banks which by the end of the 16th century became the most important banks in Europe.

Recognized banking in England commenced with the operations of the goldsmiths, who like the continental bankers, accepted monies on deposit, issued their notes, lent money—even to the King—in the form of notes in excess of their deposits and consequently found themselves unable to meet their obligations. (See Holdsworth's History of English Law, page 185).

(b) Bank of England:

This was the situation in England in 1694 when the first bank was organized and recognized by law. This was the Bank of England.

The Dutch war of 1672 had greatly increased the burden of the King's funds. The parliament in England which was controlled mainly by goldsmiths and money lenders refused to let the King raise more money by taxation and compelled him to default on his obligations.

King William III finally had to capitulate in 1694. He had to have money or face ruin. The goldsmiths and money lenders in parliament headed by William Paterson saw their opportunity and finally agreed to let the King impose additional taxation providing the King would grant a charter to certain people who would lend him money to carry on his war with France.

Thus the authority for the incorporation of the Bank of England is not to be found in any Act entitled the Bank of England Act, but rather in the Ways and Means Act of 1694, 4 William & Mary ch. 20. The long title of this Act (sometimes called the Tunnage Act) reads as follows:

An Act for granting their Majesties, several rates and duties upon tannage of ships and vessels and upon beer, ale and other liquors, for securing certain recompenses and advantages in the said Act mentioned to such persons as shall voluntarily advance the sum of fifteen hundred thousand pounds towards the carrying on the war against France.

This is the original charter of the Bank of England giving a group of traders and money lenders the legal right to make and issue money. Here was the beginning of our modern banking system.

(*Holdsworth's History of English Law, Page 188*)

The original amount of capital subscribed was £1,200,000 all of which was advanced to the government at eight per cent interest, together with £4,000 for operation expenses, payable annually. The Bank was legally authorized to deal in bullion and bills, issue assignable notes, to lend on merchandise, to issue bank notes—paper money—to the value of the sum lent to the government, even beyond its reserves of bullion. It derived its profits from the interest paid by the government and from the notes it put into circulation.

In dealing with the method of operation of the Bank of England, Thorold Rogers states in his book, "The First Nine Years of the Bank of England"; at page 9:

It purported to give in its bills the equivalent of what it had received, but it never pretended to take the deposit for any other purpose than that of trading with it. It never professed to make its issues square exactly with its coin and bullion, though of course it made its liabilities square with its assets, plus the capital of its shareholders, and in time, plus the reserve also, i.e. its accumulated and undivided profits. At first these profits were derived from the dividends it received from Government, and from the gains it made out of the notes which it put into circulation, in exchange for, or in addition to, the cash which it took. It coined, in short, its own credit into paper money.

In Rogers, First Nine Years of the Bank of England at page 24 it is stated that William Paterson, one of the original founders of the Bank of England in a pamphlet entitled "A Brief Account of the Intended Bank of England, 1694", declared:

If the proprietors of the Bank can circulate their own foundation of twelve hundred thousand pounds without having more than two or three hundred thousand pounds lying dead at one time with another, this bank will be in effect as nine hundred thousand pounds on a million of fresh money brought into the nation.

As a matter of fact in 1696, the bank was actually circulating one and three-quarter million pounds in paper notes—against a cash, or legal currency reserve amounting to only thirty six thousand pounds. (See Rogers, *supra*, at Preface Page XVIII, and pages 72 and 73).

It is important to note that at the outset the Bank of England was not issuing credit, but was issuing promissory notes—which were then known as bank notes—as money. There was no expansion of credit in relation to cash or bank notes, only an expansion of bank notes in relation to cash or currency or gold.

The first charter of the Bank of England expired in 1709 and when renewed the bank was given the privilege of doubling its capital and consequently doubling its note issue as well. It exercised this power by issuing, not credit, but bank notes. (See Saw, *the Bank of England*, at page 29).

The bank again faced financial difficulties in 1796. Legislation was passed in 1797 authorizing the bank to suspend redemption of its notes in gold, thus making the Bank of England notes inconvertible. (See Saw, *Bank of England*, at page 47).

Although the burden was somewhat eased the repeated demands of the government for funds continued to be embarrassing to the banks until finally a parliamentary committee known as the "Bullion Committee" was formed in

1810 to investigate the whole matter of bank note issue in relation to gold. The Bullion Report presented in June 1810 found "that there was too much paper money in circulation". (Saw, Bank of England, page 50). The remedy proposed in the report was "a return to cash payments within two years". (Saw, supra, page 50). Needless to say, this remedy was not implemented.

The financial crises of 1826 and 1837-39 were blamed on the excessive amount of notes issued by the Bank of England. In December, 1825 the gold reserve of the bank was only £1,260,000 with notes in circulation of over £20,000,000. (See Saw, supra page 54). Thus arose the great debate between the advocates of the "Currency Principle" and those of the "Banking Principle" of note issue, i.e. whether the issue of bank notes should be based on gold or on liquidable assets. Sir Robert Peel adopted the "Currency Principle" which was incorporated in the provisions of the Bank Act of 1844. (See Saw, page 57); also (Clapham, "The Bank of England", pages 181-182).

The Bank Act of 1844 was designed mainly to make the Issue Department of the Bank of England the sole bank note issuing authority in Great Britain. This aim was finally achieved in 1921.

A study of the discussions that took place in England at the time of the passing of the Bank Charter Act of 1844 will reveal clearly the tremendous importance attached to the privilege of issuing bank notes.

The main question to be decided was whether bank notes should be issued on the "banking principle", or the "currency principle". The policy of issuing bank credit and its substitution for bank notes had not yet even been conceived and the privilege of issuing notes was the most important and lucrative function of banking. (See Rogers supra). A study of Canadian banking up to the time of confederation will reveal that this situation also applied to Canada.

(c) Banking in Canada: (References: A History of Banking in Canada by B. E. Walker; Canadian Banking System, 1817-1890 by Breckenridge).

Banking commenced in Canada in 1792 or 1795 with the operation of a private bank "without the legislative authority to issue notes".

The first bill for the establishment of a bank with authority to issue notes was introduced in the Legislative Assembly of Lower Canada in 1808 but was never passed. (See Walker Page 11).

The Bank of Montreal was organized in 1817 but it was not until 1821 that it received its charter from the legislature of Lower Canada along with two other banks but these original three bank charters did not receive royal assent until 1822. (See Walker page 17).

The provisions of these charters were identical. It is necessary to refer only to the "Act for Incorporating certain persons therein named, under the name of 'President, Directors and Company of the Bank of Montreal'". (Ch. XXI, 1 Geo. IV, Statutes of Lower Canada, 1821).

Section 9 of the statute contains fifteen provisions which "shall form and be deemed and held to be Fundamental Articles of the said Corporation". For the purpose of this reference it is only necessary to refer to the following three rules.

Rule 9—The total liabilities of the bank are not to exceed three times the capital stock actually paid in, over and above a sum equal in amount to such money as may be deposited in the bank for safekeeping. In case of excess, the directors were personally liable.

Rule 11—The bank was authorized to issue notes to circulate as money, without restriction other than the general limit for all obligations.

Rule 15—The bank was authorized to deal in bills of exchange, discount notes, to deal in gold and silver coin and bullion, etc., and to sell stock pledged for money lent and not redeemed.

In addition section 10 of the statute provided that all notes issued were payable in gold or silver coin, current by the laws of the province. In other words, although the bank was authorized to issue 3 times more notes than its paid-up capital stock plus the amount held on deposit in specie, it was still required to redeem all its notes in specie, when called upon to do so.

The first bank charter issued in Upper Canada was passed by the provincial legislature in 1817 but only received royal assent in 1821. This was issued to the Bank of Upper Canada. Other charters followed.

The Act incorporating the Bank of New Brunswick received royal assent in 1820 and therefore holds the distinction of being the first bank in what is now Canada. The first bank charter issued in Nova Scotia was in 1825.

All these bank charters contained the same fundamental principles although there may be some differences in certain minor aspects. For instance all the charters issued in New Brunswick contained a clause restricting the total liabilities to twice the amount of the paid-up capital, instead of three times as in the other provinces.

Little would be gained by a detailed examination for comparative purposes of the many different bank charters issued in the various provinces. It is sufficient to note that all these banks operated on the same fundamental principle, namely, expansion of note issue in relation to the amount of specie on hand.

Thus was incorporated into Canadian banking that most important and lucrative function and privilege of banking in Great Britain, the issue of bank notes to be used as money over and above a small amount of specie held as reserve to redeem the notes issued when presented for payment. Although there was no restriction on the amount of notes that could be issued by the bank, except the provision that the total liabilities of the bank were not to exceed three times the amount of the stock actually paid in, yet section 10 of the Act incorporating the Bank of Montreal required the bank to pay every note it issued, "in gold or silver coin, current by the laws of the province".

At the first session of the new legislature, following the Union of Upper and Lower Canada in 1841 the Select Committee on Banking and Currency recommended a uniform system for the new province of Canada as well as certain modifications to the existing legislation. These recommendations were adopted by the legislature when renewing the existing bank charters as well as when granting new charters. It is sufficient to refer to the statute renewing the charter of the Bank of Montreal and providing for an increase in its capital stock (4 and 5 Victoria, ch. 98; Statutes of Canada, 1841).

The most important relevant provisions of this enactment which existed during this period may be summarized as follows:

Section XXV provided that all promissory notes issued are to be payable on demand in specie at the place of issue.

Section XXVIII provided that the total amount of the debts a bank shall at any time owe, whether by bond, bill, note or otherwise shall not exceed three times the aggregate amount of the capital stock paid in, and the deposits made in the bank in specie and government securities for money.

This section also limited the note issue to the amount of the paid-up capital.

Section XXIX provided for the first time for the double liability of shareholders in the event of failure.

These provisions remained in effect till confederation and were re-enacted in Dominion legislation immediately after confederation in 1869 and again in 1871.

In 1867 therefore the charters of the banks then in operation empowered them to issue money in the form of their own notes up to the full amount of their paid-up capital.

The practice followed by the banks in Canada at the time of confederation was not to issue credit on the strength of legal tender notes held as is done today but rather to issue promissory notes known as bank notes which were not legal tender, but which were payable in specie or gold on demand.

The importance that the chartered banks attached to this lucrative prerogative can best be illustrated by referring briefly to the discussion on banking that took place in the House of Commons 1869.

On May 14, 1869, Honourable John Rose, who had succeeded Honourable A. T. Galt as the first Minister of Finance of the new dominion, introduced in the House of Commons his proposals for the reform of Canadian banking. The most important of these proposals were:

- (a) the gradual reduction in the note issue of the banks at the rate of twenty per cent a year until fully retrieved;
- (b) in lieu of the privilege of issuing notes the banks were to be supplied with notes issued by the dominion government up to the amount of the capital stock paid in. Furthermore in order to obtain these notes the banks were required to deposit with the government an equal amount of gold or dominion notes. Finally the government proposed to issue interest bearing bonds to cover the notes so issued to the banks. (See Breckenridge, *Canadian Banking System*, page 237).

These banking proposals were attacked both in and out of the House of Commons. The banks fought strenuously against the new proposals. The banks in Ontario and Quebec passed the following resolution:

That in any renewal of the charters, it is important for the best interests of the public that no changes of fundamental character be made in the system and particularly that the note circulation be preserved. (Breckenridge, page 242).

Over seventy petitions were presented to the House of Commons by bankers, cities, towns and boards of trade objecting to the proposals. The opposition was so strenuous that the government had to abandon the proposals. Mr. Rose subsequently resigned as Minister of Finance to be replaced by Sir Francis Hincks. (See Breckenridge, pages 242 on).

Sir Francis dropped the proposals submitted by Mr. Rose, consulted the banks as to the nature of the reforms felt advisable and introduced in the House of Commons, the Bank Act of 1871 which was subsequently passed.

The Act retained the principle of the bank note issue against general credit for which the banks fought in 1869. (Breckenridge *supra* at page 248). In addition to providing uniformity the new Act also dropped the clause found in former bank charters "limiting the total liabilities of any bank to thrice the paid-up capital stock, plus its specie and government debentures". (Breckenridge page 249).

The significant fact in the opposition of the banks to Mr. Rose's proposals is that, as in the States at that time (See Nelson's *Encyclopaedia*, Vol. I, page 564, 2nd column) the banks had not yet realized that their prerogative to the issue of bank notes was to be replaced by a privilege of far greater importance, namely, the issue of credit. Thus they fought to retain what they thought was their most lucrative source of profit—the issue of bank notes. (Breckenridge points out at page 232 that the "loanable funds of the banks were derived from their capital, deposits and circulation". Of the three, the lending of bank notes provided the greatest source of revenue to the banks.

The various changes in the Canadian banking legislation since confederation will be found in the MacMillan Report on Banking and Currency in Canada, pages 14 to 18. No useful purpose would be served by a review of all these changes.

3.—OPERATION OF THE PRESENT CANADIAN BANKING SYSTEM

Bank of Canada.—

The cornerstone of the existing banking system in Canada is to be found in the Bank of Canada Act.

Let me now say a word about the Bank of Canada.

The object of the Bank of Canada Act is set out in the preamble which reads as follows:

WHEREAS it is desirable to establish a central bank in Canada to regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of the Dominion: Therefore, His Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:—

The basic technique used by the Bank of Canada to achieve this objective is through the sale and purchase of Canadian government securities. Through these operations the Bank of Canada tightens or loosens the cash position of the banks as a whole. The procedure is exceedingly simple and works as follows. When the Bank of Canada sells Dominion of Canada bonds to the public, cash—legal tender—is drawn out of the chartered banks to pay for the bonds. This withdrawing of cash from the chartered banks into the hands of the Bank of Canada results in a reduction of bank cash reserves. Consequently the banks have to reduce their deposit liabilities by calling in some of their loans. This in turn results in a contraction of credit. Contrariwise when the Bank of Canada buys Dominion of Canada bonds, either from the chartered banks or on the open market, the Bank of Canada notes issued in payment of the bonds puts legal tender into the hands of the sellers which immediately thereafter finds its way into the hands of the chartered banks. This release of Bank of Canada notes into the hands of the public increases bank cash reserves, resulting in an expansion of credit.

Another simple but effective control over the ability of the chartered banks to make loans lies in the operation of the Canadian government's bank accounts. The cash deposit balance of the government can be switched from the chartered banks to the Bank of Canada and that operation will quickly reduce the cash reserves of the chartered banks and so directly affect the scope of the banks to make loans, having in mind the statutory requirements as to cash reserves.

Occasionally, officials of the Bank of Canada and the chartered banks meet to discuss credit conditions in general. Such discussions took place in February 1951. At which time officials of the Bank of Canada thought that credit was on the upsurge to a dangerous extent. They, therefore, asked the cooperation of the chartered banks in cutting back credit extension. As a result credit was restricted sharply until May 1952.

Cash Reserves

In the early days of Canadian banking the extent to which a bank could exercise its privilege of issuing notes and making loans, depended mainly on the amount of specie it held on deposit. Today a bank's privilege of issuing bank credit and making loans, depends mainly on the amount of its cash reserves. It is imperative therefore, to know something of the nature of cash reserves.

In the 1940 Canada Year Book at page 869, we read that before March the 11th, 1935, the cash reserves of the chartered banks included "the gold and dominion notes held by the banks in Canada and their deposits in the central gold reserves not ear-marked against the issue of bank notes."

When the Bank of Canada started operations in 1935 the chartered banks were required to turn over to the Bank of Canada, their gold reserves in Canada and their supply of dominion notes, in exchange for Bank of Canada notes. For the first time the banks also were required to hold cash reserves amounting to at least 5 per cent of their deposit liabilities in Canada. In actual practice, this cash reserve ratio has been maintained by the banks at approximately 10 per cent of their deposit liabilities.

It should be noted that the first Bank Act after confederation, the Bank Act of 1870, contained no such provision requiring the banks to hold any reserves whatever in relation to their deposit liabilities. The banks were required to keep approximately one half of their cash reserves and never less than $\frac{1}{3}$ in any event, in dominion notes. There were changes in language from time to time in this early provision of the Bank Act of 1870, but it was not until the Bank of Canada commenced operations on March the 11th, 1935, that the banks were required to hold cash reserves amounting to at least 5 per cent of their deposit liabilities in Canada.

Cash reserves today consist of (a) deposits with the Bank of Canada and (b) notes of the Bank of Canada held by the banks. The statutory provision will be found in section 59 of the Bank Act which reads as follows:

59.—"The Bank shall maintain a reserve which shall, as provided in the Bank of Canada Act, be not less than five per cent of such of its deposit liabilities as are payable in Canadian Dollars and *such reserve shall consist of a deposit with the Bank of Canada and of Bank of Canada notes held by the bank*; and the bank shall also maintain with the Bank of Canada or elsewhere adequate reserves against liabilities elsewhere than in Canada and furnish such information as may be required by the Minister from time to time to satisfy him that such reserves against liabilities elsewhere than in Canada are so maintained."

Section 59 of the Bank Act will now have to be read in conjunction with the new section 18 (1) paragraph "o" of the proposed amendments to the Bank of Canada Act, which reads as follows:

18 (1) The Bank may:

(o) alter the percentage of the deposit liabilities of chartered banks payable in Canadian currency that chartered banks are required by the Bank Act to maintain as a minimum average cash reserve during any month, but so that the percentage is not less than eight and not more than twelve; the Bank shall, not less than one month before the month in which any such alteration becomes effective, publish a notice of the alteration in the Canada Gazette, and the Bank shall not in any month increase the percentage by more than one;

The deposit with the Bank of Canada referred to in Section 59 of the Bank Act is the account or deposit which each chartered bank keeps with the Bank of Canada, and constitutes a claim by a chartered bank against the Bank of Canada for Bank of Canada notes.

The inception of this account was the gold turned over by each bank to the Bank of Canada under Section 25 of the Bank of Canada Act when the central bank was first established. The deposit is authorized by section 18 (m) of the Bank of Canada Act. The deposit does not bear interest.

Section 24 of the Bank of Canada Act says "such reserve shall consist of a deposit with the bank and of notes of the bank held by such bank". The interpretation has always been that the cash reserve could be kept by either a deposit or bank notes. In actual practice, however, and as a matter of good business the cash reserve is always represented partly by a deposit with the Bank of Canada and partly by Bank of Canada notes which the chartered bank owns.

It should be noted that the Bank of Canada notes in the tills of the chartered banks from day to day constitute that part of the cash reserve represented by Bank of Canada notes as required by section 24. There is no question of requiring the banks to set aside separately Bank of Canada notes which will constitute part of the cash reserve.

How are cash reserves obtained?

What is the procedure by which a chartered bank increases its cash reserves or legal tender as the basis for issuing bank credit up to 10 times the amount of its supply of legal tender? There are 3 ways in which a chartered bank may obtain or increase its supply of legal tender.

1. A chartered bank may get Bank of Canada notes by the simple act of giving the Bank of Canada a cheque on the chartered bank's account in the Bank of Canada. The legal tender, i.e., Bank of Canada notes, are then turned over to the chartered bank and the amount debited to the deposit of the chartered bank in the Bank of Canada.

2. From time to time the chartered banks may sell some of its Canadian government bonds or other securities to the Bank of Canada or to the general public. I understand that as a matter of policy the Bank of Canada does not encourage the banks to sell directly to the Bank of Canada, government securities out of the chartered bank's portfolio of securities for the purpose of obtaining legal tender or for any other purpose. The Bank of Canada encourages the chartered banks to sell its securities to the public when it needs to increase its cash reserves. With the cash reserves so obtained the banks are again in a position to expand bank credit up to 10 times the additional cash reserves or legal tender so acquired.

3. If the need for legal tender by the chartered bank is a temporary one the chartered bank may apply for a loan from the Bank of Canada. These loans carry 2 per cent interest and as collateral government securities are deposited with the Bank of Canada. The loan is set up as a credit item in the borrowing bank's account in the central bank. The statutory authority is section 18 subsection (1) paragraph (i) of the Bank of Canada Act. This procedure also increases the chartered banks' cash reserves which can be used for the further expansion of bank credit on a 10 to 1 ratio. I do not think this provision of the Bank Act is used very often.

Bank loans

Generally speaking there are four factors taken into consideration by a bank before making a loan. These are:

1. The credit worthiness or "real credit" of the borrower.
2. The industrial classification into which the proposed loan would fall.
3. The general economic outlook and the economic environment.
4. The ratio of bank's securities to its loan, that is to say, the bank's liquidity.

Over and above these considerations, however, is the all-important question of the position of the bank's cash reserve. This is the main consideration which would motivate a chartered bank toward refusing an otherwise acceptable loan. The primary obstacle is a difficult cash position. If there be a

tight cash position the Bank of Canada can very effectively supply a remedy by increasing the over-all cash position of all the chartered banks by buying Canadian government bonds from the banks or making loans to the chartered banks and then taking the Canadian government bonds as security for the loan.

If however, a chartered bank is in a tight cash position and did not wish to sell securities and so get cash from the Bank of Canada the result would likely be a cut back of loans, i.e. a contraction of credit.

There are no specific provisions in the Bank Act or the Bank of Canada Act which control the procedures of the chartered banks in the matter of making or withholding loans. These are matters depending upon the judgment of the bank officials, not a matter which the statute attempts to spell out in directives to the bank.

In considering the cash reserves of the chartered banks it is important to keep in mind that any change in the cash reserves, either up or down, effects the total bank deposits in all the banks by ten times that amount. This is by reason of the existing practice of a 10 per cent ratio of cash reserves to deposit.

Cancellation of Note Issue

With the establishment of the Bank of Canada in 1935, the privilege enjoyed by the chartered banks of issuing bank notes up to the amount of their paid-up capital was gradually curtailed until finally eliminated completely in 1950, insofar as notes issued for circulation in Canada was concerned.

The Bank of Canada first took over the issue of one dollar and two dollar bills from the government of Canada.

The withdrawal from circulation of the notes of the chartered banks was done pursuant to the requirements of section 61 (2) of the Bank Act of 1934 and section 61 (7) of the Bank Act of 1944. Those sections laid down the manner in which the chartered banks were required to gradually withdraw their notes from circulation. Of particular interest are subsections (7) and (8) of section 61 of the Bank Act of 1944 which read as follows:

(7) Each bank enumerated in Schedule A to this Act, except any such bank which has suspended payment of its liabilities as they accrue, shall within thirty days after the first day of January one thousand nine hundred and fifty pay to the Bank of Canada out of its balance with the Bank of Canada an amount equal to the face value of the notes issued by it intended for circulation in Canada outstanding on the said date and upon such payment being made such bank shall cease to be liable to redeem such notes; and if the bank fails to pay such amount within such period, such amount, together with interest thereon at the rate of five per centum per annum to the date of payment, may be recovered by the Bank of Canada by action.

(8) Upon payment by any bank to the Bank of Canada under the next preceding subsection, the Bank of Canada shall, notwithstanding anything contained in any other statute, be liable to redeem all notes issued by such bank intended for circulation in Canada thereafter presented to it. 1934, c.24, s.62 am.

As of December 31st, 1953, there were still outstanding chartered bank notes in the amount of \$10,198,229.60 issued for circulation in Canada, according to the report of the Bank of Canada for 1953. These notes are not in the hands of the banks because such possession would be contrary to the Bank of Canada Act. They are doubtless held in various kinds of safekeeping or as souvenirs by members of the public. Many of them may have been burned or otherwise destroyed.

From this brief review of Canadian banking legislation and Canadian banking practice, one major point stands out. While originally the most lucrative privilege of banking consisted in issuing bank notes up to three times the amount of the capital stock paid in and the amount of specie on deposit, today the most lucrative function in banking is in the privilege of issuing bank credit up to 10 times the amount of cash reserves held by the banks.

It is interesting to note that there was no great outcry or protest by the banks when they faced the loss of this note-issuing privilege, similar to the outcry that took place in 1869 when the same measure was proposed. Why? Because the banks had discovered that the returns—or profits—to be derived from the privilege of issuing bank credit was far greater than the profits to be made from the issue of bank notes.

Nature of Bank Credit

Just what is the nature of this bank credit? It is an expansion of credit in the books of the banks up to 10 times the amount of cash reserves or legal tender held by the banks. This bank credit is not tangible money, in the sense that it is something that you can carry in your pocket. It is something that exists in the ledgers of the banks only. The debit and credit entries in this ledger are transferred from the account of one person to the account of another by the use of a cheque. That is why, this bank credit money has been called in some cases "cheque money" or "bookkeeping money" or "fountain pen money". We in Alberta have used this expression "fountain pen money", to denote this type of money. As I indicated at the outset, we were ridiculed from one end of the country to the other for calling this "bank credit money" "fountain pen money". We were accused of advocating "funny money" when we were explaining the use of bank credit money. One of our greatest critics was Stephen Leacock. I have already made a reference to the article written by Stephen Leacock, in the issue of MacLean's Magazine of May the 1st, 1943. I indicated then that he had already changed his views about the money system before he died. Stephen Leacock did not hesitate to refer to this "bank credit money" as "fountain pen money". The committee might be interested to hear Leacock's own words.

In the article referred to Stephen Leacock deals with the question, where is the money coming from after the war, to put two million Canadians to work when the war is over? In order to answer the question, Leacock gives an illustration in the form of a parable:

Four businessmen were stranded, shipwrecked and penniless, upon an island in the South Seas. It was a beautiful island. Breadfruit grew on every tree, coconuts dangled at the tops of palms, while beds of oysters lay near the shore.

But for the businessmen it was useless. They had no "funds" to develop the island; with an advance of funds they could have gathered breadfruit and made bread. But without funds! Why, they couldn't! They must stay hungry.

"Don't you think," said the weakest among them—a frail man (he had never been able to raise more than a million dollars; he'd no strength)—"Don't you think," he said to the biggest man, "you could climb that palm tree and throw down coconuts?"... "And who'll underwrite me?" asked the other.

There it was! They were blocked and helpless; couldn't even get an advance to wade into the sea for oysters.

So they sat there on the rocks—starving, dejected, their hair growing long. They couldn't even shave; there was no barber union.

On the fourth day the frail man, who was obviously sinking, said: "If I die I want you to bury me over there on that little hill overlooking the sea."

"We can't bury you, Eddie," they said. "We've no burial fund."

They fell asleep on the sands. But the next morning when they woke up, an Angel was standing beside them. They knew he was an Angel although he wore a morning coat and a top hat, and had grey striped trousers with spats above his boots.

"Are you an Angel?" they asked.

"Pretty much," he answered: "That is to say, I am director of the Bank of England, but for you just now it's almost the same thing."

"Funds, funds!" they exclaimed. "Can you advance us funds?"

"Certainly," said the Angel. "I came for that. I think I can see a fountain pen in your waistcoat pocket there. Thank you . . . and that ten cent scribbler . . . much obliged. Now then up you get! Light a fire, go and collect those oysters, pick some breadfruit, chase that wild goat and I'll arrange an advance of funds while you're doing it."

As they sat around their fire at supper the Angel explained it all out of the scribbler.

"I have capitalized your island at two million dollars (that's half a million each) and I have opened a current drawing account for each of you of a hundred thousand, with loans as required . . ."

The extent to which the banks create financial credit—or fountain pen money—and issue it to the public as a substitute for cash money, can best be realized by a brief look at some of the banking statistics compiled from year to year in the Canada Year Book.

I would not like to take the time of the committee to read all these statistics. I would like to call your attention to certain figures however, and with your permission would like to file the statement as an appendix to this submission.

A reference to the table will indicate that in 1861 the total deposit liabilities amounted to 19 million dollars. The paid up capital was \$26,891,-224. Under the legislation in effect at that time the banks were therefore in a position to issue twenty-six million in notes. They actually had issued however, only \$13,600,000. This amount of note issue, plus the holdings of specie and government notes, amounted to more than the total deposit liabilities. This was the situation prevailing up to that time.

The following year however, 1862, we note a change. The deposit liabilities of \$19,800,000 exceed the total issue of bank notes plus the bank holdings of specie and government notes by nearly 4 million dollars. The deposit liabilities however, are still some \$6,600,000 less than the paid-up capital.

If you now look at the figures for the year 1873 you will find that for the first time the deposit liabilities exceed the paid-up capital and bank holdings of specie and dominion notes. The amount of the excess is some 2 million dollars. Thus for the first time we find definite evidence of expansion of credit in the books of the banks. The extent to which this practice increased can be seen by looking at the figures given for the ensuing years. Let us take a look at the year 1934, the year the Bank of Canada Act was passed limiting the right of the banks to issue notes. The notes issued by the chartered banks and in circulation in 1934 amounted to \$135,537,793.00. The paid-up capital of the banks was \$144,916,667.00. This represents the amount of notes the banks could have issued had they so wished or found

it necessary. Add to this their holdings of cash specie and Dominion government notes. The total is \$214,419,280.00. As against this the deposit liabilities amounted to \$2,548,720,434.00

The position at the end of 1953 is the same, except that now the banks do not issue any more notes.

Change in banking practice

It will be plain from these statistics that there is not too much resemblance between banking practices today and banking practices when the Bank of England was organized. It is true however, to say that the fundamental concept of modern banking is still the same, namely, the privilege of issuing money, whether it be in the form of bank notes, or bank credit, granted to the banks by the State.

This change in the nature of modern money has been recognized by most economists and bankers. I will refer to just two authorities. The first is Alvin H. Hansen, professor of economics at Harvard University. In his book "Fiscal Policy and Business Cycles", published in 1941, Professor Hansen states at page 176: "Modern money consists of demand deposits".

Again at page 177, he states:

The modern banking system, with its freedom to create demand deposits on a fractional reserve basis, essentially issues "paper money" through the loan-deposit operations. And this 'multiplication of currency' has given us an ever-expanding money supply corresponding more or less to the increasing volume of trade.

I query whether it is necessary to belabor this feature of banking practice today because it is widely recognized. However, to establish this point beyond doubt I want to quote statements made by Graham Towers, governor of the Bank of Canada in answer to questions submitted to him by members of the Banking and Commerce Committee in 1939. These are some of the points established by Mr. Towers:

Q. Ninety-five per cent. of all our volume of business is being done with what we call exchange of bank deposits—that is simply bookkeeping entries in banks against which people write cheques?

Mr. Towers: I think that is a fair statement. (p. 223)

Q. When you allow the merchant banking system to issue bank deposits—with the practice of using cheques—you virtually allow the banks to issue an effective substitute for money, do you not?

Mr. Towers. The bank deposits are actually money in that sense.

Q. . . . as a matter of fact they are not actual money but credit, bookkeeping accounts, which are used as a substitute for money?

Mr. Towers: Yes.

Q. Then we authorize the banks to issue a substitute for money?

Mr. Towers: Yes, I think that is a very fair statement of banking.

(p. 285)

While many other authorities could be cited, I think sufficient has been given to establish the actual banking practice today under the Bank Act and the Bank of Canada Act.

I would like now to examine with you the impact of our banking policies and practices on the Canadian economy.

PART II

DEFECTS OF THE PRESENT BANKING SYSTEM

From the foregoing brief review of the development of banking principles and the history of banking in Canada it is now possible to draw some definite conclusions. I will deal with one which I believe constitutes the greatest defect or weakness of our Canadian banking system. I do not want to suggest that this defect is to be found only in our banking system. It is part of banking policies and practices in countries all over the world, including the United States, Great Britain, France, etc. I shall however, confine myself to the Canadian scene because it is Canadian banking legislation, and the effect it may have on the Canadian economy with which this committee is concerned.

1.—Accumulation of debt.

The main disability or weakness of the Canadian banking system is that it results in the accumulation of an ever increasing burden of debt on the Canadian people that can never be paid.

As already explained the original charters of the early banks granted them authority to issue notes up to three times the amount of specie held. You will recall also that banks were required to redeem all the notes issued in specie. Some banks managed to do so and they still are in operation today. Other banks failed, because they were unable to meet this requirement. At pages 784 and 785 of the proceedings of this committee will be found a statement showing the fate of the 110 bank charters which were active at or incorporated since confederation. Only 11 banks still are in operation.

The notes so issued were put into circulation in the form of loans—which of course had to be paid back with interest. Naturally banks are business institutions. They operate in a business-like manner, seeking to make a profit out of the operation of their business for the benefit of their shareholders. We must agree they are doing a mighty good job of it.

The profit made by the banks is derived mainly from the interest received on loans. At first, profits were limited simply because loans were limited to bank notes issued up to three times the paid-up capital stock plus the specie—or coins—held by the bank on deposit. Today however, interest profit is far greater because banks are now allowed to make loans in the form of bank credit up to 20 times the amount of legal tender they hold, although in actual practice they seldom exceed a 10 to 1 ratio.

Poker Game

Let me illustrate how debt accumulates by referring to a game of poker. Let us suppose that five people are playing poker and each has \$10 making a total of fifty dollars. The understanding is that the owner of the house is entitled to a rake-off of 10 cents out of every pot played. The game starts and at the end of 100 hands, one man has lost his \$10. That means that the other four players still have forty dollars, because the owner of the house has taken out his rake-off of 10 cents a pot, for a total of \$10. At the end of 200 hands, another man drops out. There are now three players left. But all the money they have among them is \$30, because the house has accumulated a stake of \$20 by way of his rake-off. Finally by the time 500 hands have been played, the house reaches out and says, "Thank you boys, this is my rake-off". The house has accumulated the \$50, and the five players have nothing. But then they start again. They borrow \$10 each from the house-owner and each gives him his watch as security. By the time they have played another five hundred hands, they have lost everything once more—including their watches. They borrow once more giving their shirts as security. At the end of this cycle, they not only owe the house \$100, but they also have lost their shirts!

Collectively the more they play, the more they lose. They cannot possibly win. The more they borrow to play under the rake-off system, the more are they going into debt. Collectively they cannot win!

Our poker game is a fair illustration of banking practices today. Banks make loans up to 10 times the amount of legal tender in the country. They charge interest on these loans. It is only a matter of time before they have legal title to all the currency in the country through interest charges—rake-off! By loaning again, they accumulate title, not only to the legal tender—but through the securities they have taken, to the real wealth of the country as well.

Second Illustration

Let us consider another example. For this illustration let us take a community of 10 people, each having \$100, or a total of \$1,000. This sum is deposited with a custodian for safekeeping—or if you wish a bank. This custodian, like the English goldsmiths of old, acts as bookkeeper for the members of the community, records their transactions, transfers accounts from one member of the community to another as he may be directed. In due course, some of the members of the community approach the custodian for a loan. The loan is made. As a matter of fact with \$1,000 in the till the custodian makes loans totalling \$10,000. Remember that this is the current procedure followed by the chartered banks under the Bank Act.

What happens? The custodian charges the borrowers 6 per cent per annum on their loans. At the end of a year, the borrowers have to pay back—not \$10,000 but \$10,600! How can they do it when there is only \$1,000 in the community? Well, they manage to repay the \$10,000 in loans. This represents only the principal sum advanced. As to the interest of \$600, this can only be paid to the custodian out of the funds—or cash—originally deposited with the custodian. Therefore, the community has title to \$600 less in money than it had at the beginning of the year. It now owns only \$400 from the original sum.

Let us repeat the process now for a second year. The custodian again loans out another \$10,000. When this amount is repaid at the end of the 2nd year, there still is an obligation to pay back another \$600 in interest. But now can the community as a whole do it? There is only an amount of \$400 cash left belonging to the members of the community. How then can they pay back more than they have?

The answer is very simple. The deficit is paid in one of two ways:

1.—By obtaining a further loan from the custodian, in which case it will be evident that at the end of the third year the community is still worse off. After borrowing another \$10,000 it will then owe in interest charges another \$600, which along with the deficit of the previous year of \$200, makes a total deficit of \$800. At this point not only have they lost their original stake of \$1,000, but they are in debt to the extent of \$800. Should they continue to borrow it is obvious that the position can only become increasingly worse, UNLESS, recourse is had to the second alternative. i.e.—

2.—Default, repudiation or bankruptcy. Let me explain.

Up to now we have considered all the members of the community on the same footing. Actually, some members of the community through their initiative and enterprise are going to place themselves in a stronger financial position than others. It is logical to assume therefore that these members of the community will be able to pay back their loans in full—along with interest, but only at the expense of others, especially in the second, third and subsequent years. This is because jointly, they cannot pay back more than they got. If the custodian only puts into circulation \$10,000, and the members

of the community have no other funds, then all they can pay back jointly is the original sum of \$10,000. They cannot in addition pay \$600 in interest charges, if it does not exist. This is in accordance with the old latin maxim—*nemo dat quod non habet*—a person cannot give what he has not got.

The objection that will be raised of course, is that the members of the community using the loans, increase their production of goods beyond their own needs. They are now in a position to sell their surplus goods to the neighbouring community and thus obtain the necessary funds to pay the interest on their loans.

Is it not obvious however, that the neighbouring community is in exactly the same position, trying to sell some of its own surplus commodities to the first community for the purpose of obtaining from the first community some of its funds in order to meet the interest charges on the loans advanced by its own custodian? And all the communities in the world are endeavouring to do the same thing. Some succeed, but only at the expense of their neighbouring communities, in the same manner that some individuals can pay off their debts, along with the interest charges thereon, but only at the expense of other individuals.

Impossibility of paying interest

You cannot pay back what you haven't got, and if the bank is only advancing \$10,000 to a community, that is all the community can pay back. If all the banking systems in the world are advancing one thousand, one million, one billion or one trillion dollars to all the nations in the world, the sum total advanced is all that these nations jointly can pay back. They can only pay interest thereon by borrowing from the same source to do so.

True, some nations may be able to meet their obligations in full along with the interest charges but only at the expense of other nations. Somewhere along the line someone must default, because you cannot pay back to the banks more than the banks have put into circulation. That is the viciousness of the present banking principle and banking practice. It is inherently a debt creating system. To pay off one debt along with the interest, you have to incur another debt, or else default, repudiate your obligation or go into bankruptcy. There is no other way. The history of the world is full of debt repudiation, default and bankruptcy.

Let us look at the facts relating to private debt. From a perusal of various issues of the Canada Year Book we have gathered the following statistics dealing with commercial failures—bankruptcies—in Canada during the past 30 years.

COMMERCIAL FAILURES

1923	3,408	1932	2,420	1941	1,008
1924	2,319	1933	2,044	1942	737
1925	1,996	1934	1,532	1943	421
1926	1,773	1935	1,314	1944	277
1927	1,841	1936	1,198	1945	272
1928	2,037	1937	1,126	1946	278
1929	2,167	1938	1,219	1947	545
1930	2,402	1939	1,392	1948	813
1931	2,216	1940	1,173		

It will be noted that these add up to a total of 37,928. Nor do these figures include the number of proposals made under the Farmers' Creditors Arrangements Act. These failures correspond to some of the poker players in the early part of the game who were caught in the middle and were unable to pay back all their obligations.

To illustrate more fully the situation in regard to private debt, I want to refer briefly to the practice of buying on credit. The Calgary Albertan of January 20, 1954, under the heading "Consumer Credit Bill Record \$1,772,000,000" published the following information in connection with a Bank of Canada statement on credit buying.

OTTAWA.—Another boost in instalment-plan buying pushed Canada's consumer credit bill to a peak of \$1,772,000,000 on Sept. 30.

But there were signs the big on-the-cuff buying splurge that followed removal of credit controls in April, 1952, was nearing the saturation point.

The 1953 third-quarter rise between June 30 and Sept. 30 totalled only \$51,000,000, a Bank of Canada survey showed Monday. This compared with the \$175,000,000 jump in the second quarter of 1952.

In the 12 months ending last Sept. 30, the outstanding credit bill had made the biggest jump in history—a rise of more than \$400,000,000 as Canadians increased purchases of automobiles, household goods, clothes and other items on easier credit terms.

This heavier credit buying caused concern last year among financial experts. Bankers, particularly, warned that shopkeepers may be selling too much on terms. In time of difficulty they might have trouble collecting debts and paying of bills...

U.S. Private Debt

Alvin H. Hansen, Professor of Economics at Harvard University in his book, "Fiscal Policy and Business Cycles", at page 161, gives the following figures for private debt in the United States as at 1937:

Railway	13,109,000,000
Industrial	7,762,000,000
Public Utility	13,874,000,000
Farm Mortgage	7,082,000,000
Urban Mortgage	25,508,000,000
Total	70,335,000,000

It will be noted that these figures represent only debenture debts of record, and not debts on promissory notes, or credit buying, etc.

At page 160 of the same book, Professor Hansen quotes some very illuminating figures to show that in the past 40 years "private debt has remained substantially equal to the national income". Here are the figures (in billions of dollars):

Year	National Income	Private Debt
1902	\$18.4	\$17.0
1913	31.5	32.2
1929	82.9	84.2
1937	71.2	70.3

The World Almanac of 1953, at page 748, gives the following statistics on the growth of private debt (individual and noncorporate) in the U.S.:

	<i>Ind. and Non- corporate (billion)</i>	<i>Corporate (billion)</i>	<i>Total Private Debt (billion)</i>
1919	43.9	53.9	97.2
1929	72.6	88.9	161.5
1935	50.6	74.8	125.4
1945	55.5	85.3	140.8
1950	110.0	136.4	246.4
1951	121.2	155.8	277.0

Public Debt

We find a similar picture in the field of public debt. It is claimed by some people that because certain capital expenditures are going to benefit future generations, the proper course is to borrow money for these capital expenditures, and let the future generations share in paying off the debt. The argument to borrow for war is not quite the same, but the reasoning is. It is something like this: "Let the future generations pay off the war debt. We have had to suffer enough during the war in order to keep our country safe for Democracy. It is not asking too much for future generations to pay off the financial obligation we incurred to maintain liberty and freedom in the country for our children and grandchildren".

And yet, under the present debt creating system, this will never be repaid. In his book "A World In Debt", Freeman Tilden deals with this argument very briefly and very concisely. He puts it in this manner:

We are posterity. We do not pay. Therefore posterity does not pay.

Is any further explanation required. We, the present generation, are not paying the debt incurred by our ancestors. On the contrary, we are increasing the burden of debt still more and leaving it for our children and grandchildren to look after. Will future generations be able to pay the debt incurred by our ancestors (which we have not been able to repay) plus the debt that we ourselves have piled on top of it from our ancestors? Let us take a look at some figures, which will explain the position better than any amount of argument.

Debt in Canada:

Let us take first the debt of Canada.

We started off in 1867, with a net debt inherited from the provinces. Here is the story of that debt as found in the Canada Year Book issues of 1938, 1943 and 1952-53.

<i>Year</i>	<i>Net Debt</i>	<i>Net Debt per Capita</i>	<i>Interest Paid on Debt</i>	<i>Interest Paid per Capita</i>
1867	75,728,642	21.87		
1887	227,314,775	49.14	9,682,929	2.09
1913	314,301,625	41.18	12,603,882	1.65
1919	1,574,531,033	189.45	77,431,432	9.32
1929	2,225,504,705	221.91	124,989,950	12.46
1935	2,846,110,958	259.94	138,533,202	12.67
1940	3,271,259,647	287.43	129,315,442	11.36
1945	11,298,362,018	935.91	318,994,821	26.42
1952	11,185,281,546	775.14	432,423,032	29.97

Is this accumulation of debt on the part of Canada something to be proud of? What are the chances of posterity paying the debt we have incurred when we ourselves are unable to pay the debt incurred by our ancestors? If debt is an indication of prosperity why not pile up more and more debt?

But this does not represent the total public debt in Canada. To the total net national debt as of 1952 of11,185,281,546.00 let us add on total net direct and indirect provincial debts as of 1949 of 2,679,811,000.00 and total municipal and school debts as of 1950 amounting to 856,455,268.00

(Can. Yr. Bk. 1952-53 P.1070 and 1077)15,731,347,814.00

Thus the total public debt in Canada, national, provincial, municipal and school amounts to a staggering \$15,721,547,814.

In a parliamentary return for C. E. Johnston, it was revealed that since 1868, Canada has paid \$8,045,608,148 in interest on the national debt alone. It was further revealed that it cost to reservice the debt during that time \$329,219,003. Yet as at the end of December 1952 our net national debt stood at \$11,185,281,546!

U.S. National Debt: The history of the national debt of the U.S. is most revealing.

Historically the American people have always been opposed to debt. In the early days of the American history however, it was recognized that government borrowing might be necessary for the purpose of obtaining the large amounts of money required to fight wars. In the early days this was the only excuse recognized for the incurrence of national debt. Even under those circumstances it was argued that sinking funds should be established for the purpose of reducing just as fast as possible government debt incurred as a result of war.

In the book "Our National Debt" prepared by the Committee on Public Debt Policy appointed by the Falk Foundation, we are informed that in 1790 the public debt of the American States was 72.4 million dollars (p. 8). By 1812 this debt was reduced to 45.2 million (p. 12), but by 1816, following the war of 1812 the debt had again risen to \$129,000,000 (p. 12). Following the civil war in 1865, the debt had increased to \$2,675,000,000 (p. 12). The net reduction from 1865 to 1914 was \$1,487,000,000, and the national debt in 1914 stood at \$1,188,000,000 (p. 168). By 1919, after the first world war the United States' debt had increased to \$25,482,000,000.00. During the prosperous twenties there was a decrease of some nine billion dollars, and in 1930 the debt stood at \$16,185,000,000. By 1936, in the short space of six years, the American debt was doubled and reached \$33,779,000,000. By 1943, when the United States had entered the second World War, the debt stood at \$136,696,000,000. The legal limit permitted on the national debt by statute in the United States was \$275,000,000,000. This figure has now been reached—a situation which led to the following editorial being published in the Saturday Evening Post of February the 6th, 1954:

"ARE WE GOING TO BORROW OURSELVES INTO PROSPERITY?"

By Wilfley Scobey

The United States has now gone twenty-one years without a real depression. This stands as a record. The Keynesians and the leftists who infest our colleges and universities will claim this is largely due to their policies and is but proof of their theories. This is pure bunk,

because the United States of America has been living to a large degree on borrowed money for the past twenty-one years. If a recession has been postponed, it is at the expense of the value of the dollar.

It is almost as though a family itself, twenty-one years ago, was hard-up and in sore straits. So the family, already owing the bank \$19,000 went down and borrowed a few thousand more. That means they now had cash—plenty of cash. Mama bought a new fur coat, Pa a new car, the kids each a new bicycle. This was prosperity! When that money ran out, Pa simply went down to the bank and borrowed again. This kept up for twenty-one long years, year after year, until Pa finally owed the bank \$275,000, the limit of his credit.

The United States can be said to be almost identically in that predicament today. Twenty-one years ago the public debt was only \$19,000,000,000 and we have borrowed and borrowed until just recently, when the public debt reached the limit of its credit, of \$275,000,000,000. No wonder the Keynesian professors kept dishing out the same line of bilge water!

Were this country normal, which it is not, the exceeding of the legal debt limit would have caused a furor last month when the limit of our credit was reached. The bemused and well-regimented public said nothing.

So what are we going to do now? Are we going to borrow some more?

(Editorial—Saturday Evening Post—February 6, 1954)

British Debt:

The same situation exists however, in every leading country in the world, except maybe Russia. Let us take a very brief look at the British debt.

The public debt of Great Britain started in 1693 when Charles Montague who was at that time head of the treasury in Great Britain, proposed that one million pounds be borrowed for the purposes of the kingdom, the repayment thereof to be secured by the pledge of certain revenues to the state, mainly a tax on beer and liquor. It was for the purpose of making this money available to the King, that the Bank of England was established by a group of private individuals. The sum of one million two hundred thousand pounds was raised, and lent to the Crown at 8 per cent. Needless to say Great Britain to this day has never been out of debt.

The increase in the public debt of Great Britain is very neatly summarized in professor Hansen's book "Fiscal Policy and Business Cycles". At page 136 we find the following statement:

The period from 1690 to 1815 in England is divided almost equally into years of war and years of peace. Regularly in the war years the public debt arose, while in years of peace the budget was more or less balanced, and at times some reduction in the debt occurred. It is evident, however, that there is a marked upward trend throughout the entire period which assumes almost a straight line on a logarithmic scale. Thus, overlooking the relatively short-run fluctuations about the trend, it may be said that the British public debt for this period of the one hundred and twenty-five years was raising at approximately a constant percentage rate of increase. Between 1815 and 1914 the public debt ceased to rise and, considering the whole period, declined by a very moderate amount, so that by 1914 it stood 21·8 per cent under the 1815 level. There were some fluctuations up and down, notably the temporary rise in the debt during the Boer War, followed by a subsequent fairly rapid retirement. Then came the prodigious rise in the

public debt incident to the first World War, so that the postwar debt stood in relation to the total national income at about the same level as in 1815. In both 1818 and 1923 the debt was twice the national income.

In the 1953 edition of Whitaker's Almanack at page 586, we are given the following figures representing the national debt of the United Kingdom since the turn of the century:

1900-01	703,934,000 pounds
1914-15	1,181,952,000 "
1918-19	7,451,050,000 "
1930-31	7,582,900,000 "
1937-38	8,148,985,000 "
1940-41	10,872,577,496 "
1945-46	21,365,890,692 "
1950-51	23,124,937,261 "
1951-52	22,287,640,031 "

Debt of France:

The story is the same in France.

When Louis the XIV ascended the throne of France, public debt was unknown in France. The cost of financing the government along with all the extravagance of the court of Louis the XIV, was met by taxation. True, taxation was extremely heavy, but Colbert who has been called the ablest controller in Europe at that time, strenuously objected to any borrowings by his sovereign master. Colbert's successor was a man named Louvois, who immediately encouraged Louis the XIV to borrow to meet his extravagant expenses. This policy was condemned by Colbert, who told Louvois that loans would only increase the kingdom's extravagances. "You will have to raise taxes to pay the interest. If the loans have no limit neither has the taxes" (Tilden, "A World In Debt").

When Louis XIV died the kingdom of France was indebted to the money brokers to the tune of two and one-half billions of gold livres. Under Colbert and financing through taxes, the country prospered. Factories were opened, roads were improved, but as soon as the King started borrowing to meet payment of his extravagances, the factories were closed by the heavier burden of taxation. The roads deteriorated and the army was unpaid. This is the situation that existed when Louis XV ascended the throne of France, taking unto himself a country that had already incurred a debt of two and one half billions of gold livres.

The extravagances of the Crown—and borrowing to meet them—were maintained and increased during the reigns of Louis XVth and Louis XVIth culminating in the French Revolution. With the rise to power of Napoleon there was a change in the method of government financing. Napoleon, after having seen the follies of debts incurred by the last French kings, steadfastly refused to borrow to finance the Napoleonic wars, with the result that at the end of his career, the French public debt, was relatively small compared to the debt of Great Britain at the same period. The story of the national debt of France is again summarized by professor Hansen, in his book "Fiscal Policy and Business Cycles", at page 136 in the following terms:

At the close of the Napoleonic Wars the French Public debt, in contrast with the situation in England, was small. Her experience from 1815 to 1914 was quite divergent from that of England. Whereas, the English debt became stabilized and indeed gradually declined, the French debt rose with temporary interruptions through the nineteenth century up to the time of the first World War. There were, of course,

periods of varying length in which the budget was balanced and in which some retirement of the public debt occurred, but the trend throughout the century was upward. The steepness of the rising trend varied considerably at different points in the century. With the first World War came—as also in England, but at a far more rapid rate—an unprecedented rise in the debt of a magnitude so great as to result in (or to accompany—the casual interrelationship is a complex one) a five-or six-fold price inflation.

These cases illustrate the story of public debt the world over. It is the story of accumulating debt—a debt that cannot be paid except by default and repudiation.

Default and Repudiation

The history of public debts throughout the world is full of defaults and repudiations. One has but to read Tilden's book "A World in Debt" to become acutely aware of the many defaults and repudiations that have taken place, not only in European countries, but also in the States.

At page 274, Tilden gives us the list of bankruptcies suffered by various nations in the world, previous to the world war of 1914. These are:

Spain in 1820, 1831, 1834, 1851, 1867, 1872; Greece in 1836 and 1893; Denmark in 1812, 1813; Prussia in 1807, 1813; Austria in 1802, 1805, 1806, 1811, 1816, 1818, and 1868; Holland, 1814; Portugal, 1830, 1853, 1892; Russia, 1839; Turkey, 1875, 1881.

Let us take a look at some more modern figures. In Harry Scherman's book "The Promises Men Live By", we read at page 249, the following statement:

On December 31, 1936, American citizens had lent money to forty nations on their deferred exchanges. Of these, twenty-three had defaulted on part or all of the promises. The total sum in default was 36 per cent of the total relinquished in the first place, and promised in exchange!

On the same page we read the following statement:

The League of Nations in one of its publications gives the total long promises of all the sovereign States. They added up, as previously stated, to about \$149,000,000,000 in 1936. Sixty-two governments were listed in this record. Of these, twenty-seven were in default at the time, either as to principal or interest. This is over 45 per cent.

This is, of course, only the record of the promises still existing. But following the War, there was a well-nigh universal welching on the part of governments in the deferred exchange they had entered into with their own citizens and foreigners—both by direct repudiation and by *monetary subterfuge*.

Prior to the World War, the national debt of the active belligerents was about \$32,000,000,000. During the conflict, probably about \$186,000,000,000 more were borrowed. Except for that which was borrowed by Great Britain and the United States from their citizens, almost the entire balance of this enormous sum of close to \$218,000,000,000 has not been paid, and will never be paid, to those who trusted the promisors. Russia wiped out all her debt out of hand. Germany cancelled the astronomical billions she had borrowed from her citizens by paying it in a valueless mark—a grim joke. Austria did the same. France and Italy wiped out from 80 per cent to 90 per cent of what they owed their citizens, and lately have wiped out a good portion of the balance.

All the smaller nations of Europe involved in the War on both sides—Belgium, Jugoslavia, Greece, Rumania, Turkey—followed the same course of action.

American repudiation

But even France and Great Britain have had to default on their debts. The story of reparations and the default on the debts incurred in World War I are too well known to require repetition. What may not be so well known is the story of debt default and repudiation by our great neighbour to the south, the United States. Let us take a brief look.

At page 337 of his book "A World In Debt", Tilden gives us the story of the repudiation of the debts incurred by the southern states before the Civil War, amounting to seventy-five million dollars of principal and two hundred and fifty million dollars of interest. This repudiation took place despite the solemn assurance that had been given by Daniel Webster to European creditors, that it was "unthinkable", that any American state would repudiate its obligations.

From 1873 to 1914, at a time when she was the creditor nation of the world, Great Britain advanced moneys to several American states, namely, Virginia, Indiana, Georgia, Florida, North Carolina, Tennessee, Alabama, Mississippi, Louisiana and several others. These loans were all repudiated in full or in part. As a matter of fact in the case of Mississippi, after the State Supreme Court had declared that the debt due to Great Britain was a valid debt and should be paid, the state legislature enacted legislation making it unconstitutional for these debts to be paid!

I will not mention the repudiation of the debt incurred by the "Carpet-bagger" in the southern states after the Civil War, because of the circumstances surrounding the state borrowings at that time.

The U.S. government itself did not hesitate to repudiate one of its most solemn debts incurred under circumstances which possibly amounts to ingratitude. It was the debt owed to Caron de Beaumarchais, a Frenchman who not only pleaded the cause of the American Revolution in France, but supported his words with deeds and made large advances to the cause of the revolution in money and goods. Alexander Hamilton in 1793, established the debt owing by the new American democracy to de Beaumarchais, at the sum of two million two hundred and eighty thousand francs. Instead of showing its gratitude to this Frenchman for all the assistance, financial and otherwise, the United States had received during the fight for independence, and paying off the debt in full, it started a squabble which lasted until 1835, when finally, in desperation, the Frenchman accepted eight hundred thousand francs in settlement of the indebtedness due him of two million two hundred and eighty thousand francs.

Devaluation and Depreciation

But there is another method of repudiation—a far more subtle method than outright refusal to pay—that is repudiation by depreciation or devaluation of the currency, or by changing the meaning of a monetary expression. Not only is this method more subtle but it is also hypocritical. It is what Scherman has called in his book "The Promises Men Live By"—"monetary subterfuge". It was the method used by Germany after the first world war to cancel its debt. Before 1914, the German mark by definition was valued as 5.15 grains of gold. In 1923, the German debt amounted to over five hundred trillion "marks". This debt was paid off by the simple expedient of declaring that the "mark" no longer existed, and a new monetary unit was established, namely, the "Reichsmark". The value of the reichsmark was also established

at 5.53 grains of gold. All the German bonds issued till then were payable in "Marks". They could not be paid after 1923 because this "mark" no longer existed!

The same process was used even in the United States. On March the 6th, 1933, the U.S. dollar was valued at 23.23 grains of gold. On January the 30th, 1934, President Roosevelt changed the definition of the U.S. dollar, making it worth only 13.85 grains of gold, or 1.35th of an ounce of gold. By this "simple, brazen and fraudulent changing of the meaning of an important word" as Scherman calls it, the creditors of the United States—the bondholders—discovered that the money they received when their bonds were paid was worth only a little more than half the money they had lent their government in good faith. (See Scherman, "The Promises Men Live By", Pages 353-355.)

This method of repudiating debt has been practised by every leading country in the world. Here is what Scherman says about this aspect of the question at page 251 of his book. "The Promises Men Live By":

Now, the stark fact is that every important sovereign government on the planet, since 1929, wiped out a good part of its promises by this device, and several of them have used the device more than once. Our own nation, let it stand forever to our shame, was among these respectable pocket-pickers—for the first time in our history as an organized nation; and with us, the airiest and most inventive rationalizer of all, Great Britain. Needless to say, this device of governments works successfully only because almost all of those who are gulled do not understand what is happening.

In the United States there was an attempt made to make the government pay its bonds in the same kind of currency and the same value currency as that lent to the government when the bond was issued. Scherman refers to this again in his book "The Promises Men Live By" at page 356 where he states the following:

Because our government went "off gold" during the Civil War, it became the practice to specify in long promises that the second half of the exchange should be completed in gold coin of "the present standard of weight and fineness". In the famous "gold clause decisions", early in 1935, a Supreme Court majority held that citizens could not protect themselves, in this straightforward fashion, against the fraudulence of the government. This was clearly the ultimate purport of these decisions, which as a precedent will certainly plague our children for generations to come. For it now sets up, as a sacred doctrine, what had been the pernicious practice of rulers: that these, the most crucial of all economic promises, need not be kept by the promisor, and mere expediency—not necessity—may, if the government wishes, be considered the guide.

The same procedure was carried out by Great Britain. In Tilden's book "A World In Debt", we find the following note at the bottom of page 269:

The decision of the British Government to pay interest on its 5½% dollar bonds in depreciated paper dollars, with an option to convert to a lower coupon of sterling, was not very naughty, as financial jockeying now goes, but it was not up to England's high mark. The *Times* of London shook its head with disapproval: "In these circumstances, many will think that the Government have missed a fine opportunity to strike a blow for the sanctity of contract, which is being violated all too easily today".

But these illustrations are all cases that happened before the second world war. Since the termination of the second world war it is safe to say that there is not a single nation that has not devalued or depreciated its currency, thus constituting a partial repudiation of its obligations to its people or to foreign creditors. The same situation exists in Canada, where the value of the dollar now is only 50 per cent of what it was before the war, when the government was pleading with the Canadian people to lend its savings for the war effort. The government is now paying back the amount it borrowed from the people, but not in the same dollar value that it took from the people, but in a dollar that is now worth only half the money lent to the government.

Mr. Graham Towers referred to the same question before this committee on March 18 last. At page 714, Mr. Towers stated:

... in the days when kings and princes ruled the roost, they had rather a nasty habit of debasing the coinage when they got into a fix, and even later on parliamentary governments sometimes did the same thing, in the modern sense of inflation.

Later on Mr. Towers refers to the question of debasing the currency as the "insidious thing".

Impossible to Repay Debt:

Let me ask once more: How is it possible to pay off our debts, public and private, when practically every dollar that is put into existence is put into circulation as a debt on which interest payments must be made? Again the only answer I can give is that it cannot be done, because you cannot pay back more than you get. The only remaining alternatives under the operation of the present system are first to borrow and thus go further into debt, or secondly, settle the debt by default, repudiation or bankruptcy.

Progress (?) Through Debt!

As far back as 1948, Beland Honderick, Financial Editor of the Toronto Daily Star, in the issue of May the 22nd, 1948, published an article entitled "Must Public Debt Always Be the Price of Progress". The questions raised at that time, and the warnings issued then have apparently been ignored by those responsible for the fiscal policy of the country. In referring to the debt of Canada as it stood in 1948, roughly twelve billion dollars, Honderick wrote this:

The burden a debt of this size imposes on the nation is indicated by the annual interest charges alone. Last year these amounted to \$455,-455,000 or almost 25 per cent of the government's total budget. Twenty-five cents out of every dollar paid in taxes, in other words, went to pay interest on this debt.

While this is a sizeable burden today, it is not nearly so burdensome as it might be a few years from now when the present high level of prosperity has declined. For then government revenue will not be so buoyant. Income from taxes and other sources will have dropped off. And the interest burden will loom larger than ever.

Down through the years there have been many conflicting theories as to the effect of the debt on the nation's economy. In the early "thirties", was a tendency to blame the debt for the depression. Still later, there was a widespread belief that our debt was near the breaking point. Governments, at any rate, argued that they simply could not find the money to feed the hungry.

The pyramiding of the debt to finance the war exploded this theory and revealed the barrenness of our earlier thinking. Not only that, but it gave rise to still another theory. This was that since the debt is held chiefly within Canada, it is not a burden at all. It is simply an amount of money the Canadian people owe to themselves. If the debt was equally

distributed there might be something to this idea. The fact that it is fast being centralized in the hands of a relatively few makes it sound rather empty.

THINKING MUST CHANGE

Today, instead, we seem to be returning to our 1930 thinking. There are exhortations on all sides that we must double and redouble our efforts not only to stop this pyramiding of debt, but also to reduce it. So long as we pursue the free enterprise system, this seems to be the soundest course.

One cannot help but wonder, however, if our devotion to this debt system has not dulled our economic thinking. Otherwise we surely would recognize that there is something amiss with a system that requires the creation of debt as the price of progress. For that is precisely what this system does. To make any major capital improvement—such as the construction of a factory, a school or a hospital—we invariably must go into debt.

This is the real problem of our national debt today. More than that, it is the real challenge. For until we abandon our patronage to the debt system and develop some positive corrective, we shall be burdened as we are today.

Let me read part of that once more:

“ There is something amiss with a system that requires the creation of debt as the price of progress. . . . To make any major capital improvement, such as the construction of a factory, a school or a hospital we invariably must go into debt.

That is exactly the point I am now trying to establish as the greatest defect of the Canadian banking system, namely, that it is a debt creating system, a system that results in the accumulation of debt that can never be paid.

2. THE BANKING SYSTEM AND DEFICIENCY OF PURCHASING POWER

I think sufficient has been said on this question to establish beyond doubt, that the banking system is a debt creating system. It might be well now to devote a little time to study the effect of this debt creating system on the economy of the country. A review of the history of the past hundred years, will indicate that the present banking system was developed under and is designed to cope with an economy of scarcity, and is not designed or equipped to deal with the problems arising in an economy of abundance. It will not take much study either to ascertain that the banking system has resulted in the development of an economy that is consistently upset by cycles of booms and depressions. Let us look into this matter briefly.

From the Age of Scarcity to the Age of Abundance

Since the dawn of civilization the material goal of mankind has been to enjoy security in freedom, and for well over sixty centuries humanity has been groping towards that goal. It may be conceded that at various times through the ages the goal was actually achieved, but always the struggle for a better environment continued. The puny limits of man's own energy were recognized, and means to augment that energy were sought diligently.

Little progress was made in the search until less than two hundred years ago when James Watt paved the way for the machine age. All the centuries preceding this development comprised the age of scarcity as compared with the age of plenty which was soon to follow.

It might be well to note a further division in this latter age of potential plenty. The first division began with the industrial revolution in England.

With energy stored in coal, and with machines to release and utilize that energy, the output of goods multiplied and despite early misgivings, the number of wage-earning industrial workers increased proportionately.

This first division of the age of plenty is properly called the machine age. It marked the end of feudalism and inaugurated what has since been called capitalism—or the capitalistic system.

At the outset however, the machine age still operated in an economy of scarcity, with a tremendous shortage of manpower. The statute books of England are filled with laws for the protection of child labor in factories, the imposition of age limits and the limitation of hours of work.

Child Labor

By way of contrast and for the purpose of impressing you with the tremendous difference between the days of an economy of scarcity and our present era of abundance, let me give you a paragraph from Dr. McNair Wilson's book "Monarchy or Money Power". Dr. Wilson quotes Robert Dale Owen, who made a tour of Great Britain shortly after the Battle of Waterloo and wrote as follows:

We visited all the chief factories in Great Britain. The facts we collected seemed to be terrible almost beyond belief. Not in exceptional cases, but as a rule, we found children of ten years old worked regularly 14 hours a day, with half an hour's interval for the midday meal, which was eaten in the factory. In the fine-yarn cotton mills they were subjected to this labour in a temperature usually exceeding 75 degrees and in all the cotton factories they breathed an atmosphere, more or less injurious to the lungs, because of the dust and the minute cotton fibres that pervaded it. In some cases we found that greed of gain had impelled the mill owners to still greater extremities of inhumanity, utterly disgraceful, indeed, to a civilized nation. Their mills were run fifteen and in exceptional cases sixteen hours a day, with a single set of hands; and they did not scruple to employ children of both sexes from the age of eight. We actually found a considerable number under that age. It need not be said that such a system could not be maintained without corporal punishment. Most of the overseers openly carried stout leather thongs and we frequently saw even the youngest children severely beaten . . . In some large factories from one-fourth to one-fifth of the children were either crippled or otherwise deformed, or permanently injured by excessive toil, sometimes by brutal abuse. The younger children seldom held out more than three or four years without serious illness, often ending in death.

This was just a little over a 100 years ago!

In appendix D of Hattersley's book "Wealth, Want and War" we read the story of a monument erected in the churchyard at Silkstone, near Barnsley,

to perpetuate the remembrance of an awful visitation of the Almighty which took place in this parish on the 4th day of July, 1838.

On that eventful day the Lord sent forth His Thunder, Lightening, Hail and Rain, carrying devastation before them and by a sudden irruption of Water into the Coalpits of R. C. Clarke, Esq., twenty-six human beings whose names are recorded here were suddenly summoned to appear before their Maker!

On one side of the monument are given the names and ages of 15 males—I cannot say men—who were killed in the coal mines that day. The ages ranged from 8 years to 16 years of age! Five of the 15 were 8 years old, two were 9 years old, three were 10, two were 12, one was 13, one was 16 and one was only 7 year old. On the opposite side of the monument are

given the names and ages of the eleven females that were killed in the accident. They were all girls ranging in age from 8 to 17 years! Children 8 and 10 years of age killed at work in a coal mine! Work in coal mines today is still a very strenuous operation even with modern machinery. It is not too difficult to visualize what conditions must have been like 116 years ago.

Why was it necessary to use children to work in coal mines and factories? Because the machine age had not yet progressed sufficiently to reduce the amount of labour required to produce the goods of life. People were still living in an age of scarcity, and of course the whole banking structure was designed to promote the production of additional goods.

Power Age

The end of the machine age coincided roughly with the end of the First World War. The machine age was then replaced by the age of power.

The significance of this new age—the power age—now about four decades old, is not widely recognized nor well understood. Many of us still cling to the concept of the machine age—if not to the age of scarcity. If this were not true, our problem would be much closer to its solution. The difference between the “machine age” and the age of power is very well illustrated by C. Marshall in his book, “Wealth, Want and War”, where he states at page 22:

The present age is essentially a power age. To call it “the machine age” is natural but rather misleading. Undoubtedly man is now able to command a variety of machines undreamed of 150 years ago—but a machine or a tool can do nothing until energy is supplied to set it going. It requires power. The earlier machines were mostly extensions of the human body. Men had used hammers to drive in nails, but the power to drive the hammer was supplied by themselves. Men had used levers to raise great weights, but generally speaking the power to move the lever was human muscle. The power-driven machine is an entirely different thing. It does not magnify the effect of human effort; it displaces it.

The plain fact is this present age of power (whether it be steam, electric or atomic) has already broken down our employment system. We are producing more and more with fewer and fewer human hands. The phenomenal increase in our power resources, together with the improvement in our methods of production, has displaced the worker. The day of the automatic factory is now a practical possibility.

Without going into too much detail in this respect let me quote from “The Road We are Travelling” written by Stuart Chase. At pages 62 and 63, we read the following:

Here is an inventory of energy sources in recent years. Look at the pitiful place occupied by human muscle:

From coal	17,000	trillion ETU a year
From oil	6,500	“
From water power	1,900	“
From natural gas	1,700	“
From firewood	1,600	“
From draft animals	750	“
From man power	400	“
From windmills	300	“

The machine age of coal, iron and smoke-bound cities is being gradually replaced by the power age of electric power, light metals and decentralized factories. In the machine age, the craftsman gives way

to the human robot with his soul-killing repetitive motions. In the power age, the robot gives way to the highly educated inspector, and to the photoelectric cell. The current war will speed up power age techniques. Potential output at its conclusion promises to be stupendous.

Many more illustrations of machine power replacing manpower could be given. I do not think it is necessary. There are some who claim that new inventions are creating new work for the men displaced by machines. That is true to a point only. Stuart Chase points out in his book the "The Road We Are Travelling" that it is pretty well recognized that this was the case until the early 1930's, "but since then technological unemployment has been getting ahead".

Statistics indicate that the number of people provided with work by these new inventions and in the production of new machines that replace manpower is never as great as the number of people put out of work by the operation of labor saving devices. That is why labor union leaders always view with alarm labor saving devices—such as the use of gas to replace coal as a fuel—because such progress will result in more unemployment. We are producing more and more with fewer and fewer human hands.

The basic feature of the power age in which we are living is this: full employment in the sense of every available man or woman working for wages 54, 48, 44 or even 40 hours a week to produce the consumer goods required for the country, is no longer possible or even necessary.

Operation of Banks in Age of Scarcity

During the period of the industrial revolution, the banks generally speaking were right in their element. It was a period of growing expansion with ever increasing production from which there was an ever increasing demand. The banks then were in a position to issue all the debt money that was required to enable the people to increase production. But when other nations started to use the machinery they had acquired from Great Britain to manufacture goods, and to offer these goods on the world markets in competition with British goods, the boom era of expansion was drawing to an end.

As the machine age developed into the age of power and more goods were produced with less manpower, unemployment became a problem and as the problem increased it became evident that the goods produced could not be distributed. It was not till many years later however, that it was discovered that the banking system which had operated so well for the production of goods was unable to finance the distribution and consumption of those same goods.

Price of debt

In giving full credit to the banking system for the part it played during the development of the industrial revolution and the machine age, let us not forget the terrific price that has been paid to the banking system for its part in this development. The role of the banking system was to provide the means to finance production. It has fulfilled this purpose but only at the price of a terrific debt burden, both private and public, imposed on the people and their governments.

Judged by the growth of debt since the 17th century, can be very seriously questioned whether the banking system ever did function in the best interest of society.

The existence of our present debt problem is I think ample evidence that something is wrong with the banking system. Money must be borrowed before it can be created and put into circulation. This results in the growth

of debt which points unerringly to the great defect in the present banking system. Nor is it of recent development. It was present from the beginning. It is a defect inherent in the system itself.

But it may be asked, if the system was so defective, how has it lasted for so long and served society as well as it has? The manner in which it has served society is of course a matter of opinion. And the reason it has lasted so long is due, not only to the power and authority of those in charge of it, but also to the mystery which has surrounded its operations from the very outset thus preventing its weaknesses from becoming widely recognized. But today, in this age of power, when the human element in production is unnecessary to such a degree, these defects are revealed with startling clarity.

Delaying Influences

Despite the growth of debt and the depression recorded, the period in British history beginning with the industrial revolution was in general prosperous. Men thrown out of work by machines found employment in other factories used for the production of machines required for the production of new commodities. This capital expansion was one of the features of the age and it kept the pump well primed. Only when an increasing number of countries introduced machines and methods which had first been devised in England did the pace slacken. As industrialization spread each new industrial centre began to compete with the other, and so the search for new markets had to go constantly further afield.

Another delaying influence tending to obscure the ineffectiveness of the banking system was the expansion of vast new areas of the world. The building of the railroads and the settlement of the Canadian west are examples. The flow of immigration in more recent years is of the same nature. All of these created new wealth... but not one of them created new money. The creation of real wealth results from the skill and efforts of the people. But the creation of new money is the right of the banking system. And so as new frontiers were established throughout the world and giant enterprises were undertaken they were financed by the creation of new financial credit or by the reinvestment of immobilized capital. And for a time prosperity resulted... followed inevitably by a return of hard times as conditions settled down to "normal".

The age of scarcity still lurks in the shadow of abundance simply because of the defect of the banking system we have been discussing. Scarcity was out of place in the machine age. It is even more out of place in the present age of power. It will continue to dog our progress until we remove the flaws in the banking system. We face the urgent necessity of adapting ourselves to the present age. If we do not, the strains which result will drive society to madness and possible oblivion.

Let us examine this matter a little more closely.

In his book, "Social Adjustment," Dr. Scott Nearing observed:

During the last century crises occurred with a degree of regularity. Approximately every ten years there was a crisis, while about once in twenty years there was a depression of serious magnitude. The trade cycle is now recognized by many thinkers as a part of the present industrial system. It exists, it causes much unemployment, and thus far there is no unanimity of opinion either as to the cause of the crises or the remedies for them.

"Social Adjustment" was written in 1910. If its preparation had been postponed for another forty-some years, Dr. Nearing would have had the

"crisis" of 1911-14, and 1920-22 to substantiate this observation, and the great depression of 1929 to 1939 would have followed through almost exactly on schedule. Ignoring the trend towards recession in 1948-49 which was reversed by the outbreak of "police action" in Korea, we may take the present crisis as one which is only a year of two overdue, and the future of which we cannot as yet evaluate.

Credence must therefore be given to the "degree of regularity" with which business crises and their big brother depressions occur. The theory of the business cycle (which might even be considered as something of a science) is hardly original with such observers as Nearing. Nor is Professor Alvin Hansen of Harvard prepared to take issue with it. Hansen's book "Fiscal Policy and Business Cycles" contains these words—"the movements of industry and business run in cycles sufficiently regular so that, within limits, a period may be assigned to their duration."

No Immediate Depression

At this point I wish to express my personal view that present unemployment and economic conditions comprising what is admittedly a rather alarming situation should show a substantial improvement as we go into the spring and summer season. The vast developments already going forward at Kitimat will probably have a buoyant effect at least upon the western economy. The construction of the projected Trans-Canada natural gas pipeline will have an even more general and beneficial effect. The construction of the great St. Lawrence seaway project if undertaken will also stimulate the national economy to a considerable extent. The new National Housing Act may provide some assistance to the construction and building industries. Our oil industry will continue to expand. And in so far as Alberta is concerned, expansion of our industries associated with oil should continue.

All the great projects I have mentioned are costly and will, if proceeded with, release huge sums of debt money into the community. Nevertheless, the initial capital outlays must be considered as removing the threat of unemployment and depression upon a temporary basis only, and when they are completed, we shall be compelled to start on something else.

It is of course hazardous for anyone to attempt to forecast economic conditions beyond the immediate future. That this is true is quite well borne out by a statement made by Sir Herbert Holt to the shareholders of the Royal Bank of Canada. Speaking on January 9, 1930 . . . a month or two after the disastrous crash of the stock market, Sir Herbert said: "the strength of the business structure (in Canada and the United States) is such that there is no reason to look forward to more than a moderate recession of business during 1930 . . . Neither the prospects in foreign trade nor the situation in Canadian industry, trade and agriculture warrant pessimism concerning the outlook during the coming year."

But even in the light of Sir Herbert's classic mistake, and despite the warning signs of surplus goods and unemployment, I dare to repeat that I think it is unlikely Canada will slip into another great depression during 1954. However, the danger signals should be heeded now to avoid disaster!

The bank charters will not be up for revision for another 10 years, so this is the last opportunity we have of dealing with the banking legislation of the country so as to prevent the depression that a look at history—as well as the warning signals now in existence—indicate is not too far away. What is a depression?

It might be well to discuss for a moment what constitutes a depression and how such a condition develops. Many will point to rising unemployment, trade stagnation, an increase in the number of bankruptcies and business failures,

accompanied by a rising suicide curve. All these are undoubted signs by which a depression is identified. Others will consult charts and graphs relating to bank clearings, wholesale and retail sales, gross and net production figures and so forth . . . and from them pinpoint the beginning of a depression and the date upon which it ends. A depression has much to do with national income and will follow naturally when this falls below a certain minimum.

It will be evident that a close relationship exists between each one of the factors mentioned and the other. One follows the other and none remain unaffected once the mysterious depressing influences are set in motion. As one small example illustrating this relationship let us consider the following: During the past few years, our farm population has been blessed with abundant crops. With a heavy carry-over already in existence elevator space is now at a premium and markets are seemingly unavailable. Delivery quotas are imposed by the government and because farmers are left with an unsold product, they are short of money and so must economize. They discharge their hired help; they do not buy new implements for the farm or new appliances for the house. But farm implement and appliance companies are geared for the production of large numbers of tractors, ploughs, combines, refrigerators, vacuum cleaners and other household aids, but since these cannot be sold, stocks and inventories pile up and are stored in great quantities.

There comes a time—and it is already on us—when the management of our factories lay off workmen. The wheels of industry falter. The workmen are thrown out of work, and so they find that in order to live, they in turn must economize . . . because they are now dependent upon their unemployment insurance payments. Even these run out in time and workmen, who a short time ago provided a lucrative home market for the products of thousands of other producers, grow desperate. They reduce their expenditures to an absolute minimum and as a result the products of other industries pile up until more factories are closed and still other thousands are thrown out of employment. The wheels of industry grind to a halt. Ultimately hundreds of thousands face privation in the very shadow of vast stores of unsold surpluses. Depression has become a grim reality!

Causes of Depression:

(a) Overproduction?

There are many people—economists, statesmen and others, who claim that depressions are caused by overproduction. They point out that if so many goods were not piled up (agricultural products as well as manufactured goods), wheels of industry could be kept turning by producing needed goods. The remedy advocated by these people is to destroy these surpluses and start all over again.

Their cry is: "Destroy our abundance and men will return to their jobs and will again be in receipt of wages and will buy all things they need so urgently and the depression will be over!"

There were many advocates of this theory in the hungry thirties even among responsible government officials with the result that a policy of wholesale destruction was instituted to eliminate so-called "over-production". Hogs and cattle were destroyed, fields of corn and cotton ploughed under; acreage taken out of production and farmers paid not to produce. The story is too well known to require further elaboration.

(b) Unemployment?

There were others who claimed that the cause of the depression of 1930-39 was unemployment. This was a view widely held during the depression of the hungry thirties. It was indeed one of the main planks in the platform of the Conservative party during the election of 1930. R. B. Bennett, the leader of the Conservative party is reported by the press to have said in Edmonton

on June 13, 1935: "I say again that I will call parliament together at the earliest possible moment to provide at once the remedy—employment for all who can and will work."

Again at Moncton on July 10, Mr. Bennett is reported by the Canadian Press to have stated:

The Conservative party is going to find work for all who are willing to work, or perish in the attempt. It is going to call parliament at the earliest possible date after July 28 and take such steps as will end this tragic condition of unemployment and bring prosperity to the country as a whole . . . Mr. King promises consideration of the problem of unemployment. I promise to end unemployment.

After having been elected to power, R. B. Bennett kept his promise to call a special session of parliament and on Sept. 10, 1930, introduced the following motion in parliament:

That it is expedient to provide that a sum not exceeding twenty million dollars be appropriated and paid out of the consolidated revenue fund for the relief of unemployment in constructing, extending or improving public works and undertakings, railways, highways, etc., that will assist in providing useful and suitable work for the unemployed.

The rest is history. Mr. Bennett soon discovered that an expenditure of 20 million was not sufficient to provide work for all the unemployed and that it was cheaper to give people relief than to put them to work. Thus was started the curse of the dole and expenditures on public works with the unemployed receiving board and room plus 20 cents a day!

The mistake made by those who claimed that both over-production and unemployment were causes of the depression was in failing to realize the difference between "a cause" and a "result", or a "symptom". They failed to realize that unemployment is an indication or a sign that a depression is about to begin or is already well on its way. They failed to realize that the so-called overproduction was the result of people being unemployed and consequently not having the necessary money to buy the goods that had been produced. Financial problems in distribution

One of the inherent disadvantages in our modern system of industrial costing methods is that retail merchants must of necessity charge more for the merchandise they sell than has been distributed by means of salaries and wages and payments in the course of producing and distributing that same merchandise. I do not propose to go into the highly technical reasons why this is so. Neither do I propose to discuss the time element involved in production and distribution by which merchandise is ready for sale in advance of all the money paid out through the processes.

There are various explanations advanced as the reason for this situation. I would like to give you two or three of these explanations and I will be content to let you select the one you wish.

I am sure you will be disappointed if I do not refer first of all to the explanation given by the late Major C. H. Douglas. I think possibly the best explanation given by Major Douglas is the one to be found in his book "Credit Power and Democracy", 2nd edition, pp. 21 and 22, in the following words:

A factory or other productive organization has, besides its economic function as a producer of goods a purely financial aspect. It may be regarded on the one hand as a device for the distribution of purchasing-power to individuals through the media of wages, salaries and dividends, and on the other hand as a manufactory of prices—financial values. From this standpoint its payments may be divided into two groups:

Group A. All payments made to individuals (Wages, salaries and dividends).

Group B. All payments made to other organizations. (Raw materials, bank charges and other external costs).

Now the rate of flow of purchasing-power to individuals is represented by A. but since all payments go into prices, the rate of flow of prices cannot be less than A and B. The produce of any factory may be considered as something which the public ought to be able to buy, although in many cases it is an intermediate product and of no use to individuals but only to a subsequent manufacturer; but since A will not purchase A and B, a proportion of the product at least equivalent to B must be distributed by a form of purchasing-power not comprised in the descriptions grouped under A.

C. H. Hattersley, at page 65 of his book "War, Want and Plenty" offers another explanation for this discrepancy:

It is the writer's considered opinion that an existing deficiency of purchasing-power can be sufficiently and satisfactorily explained as the result of the diversion of consumers' money from expenditure on consumers' goods to investment, either direct or indirect.

H. C. Batten in "Economic Democracy", the issue of October and December, 1952, presents the problem in this manner:

Killing Jobs

On the first page of 'Ford Facts' is a picture of a plastic die being lowered into place at the Chrysler Corporation. A notation on the side states that 'a plastic die can be made in three weeks, a steel die takes sixteen weeks' and on the other side a notation 'forty-two men worked on the O.D. grinding operations', but by technological adjustment 39 of the 42 jobs were eliminated. Below the picture in large letters is **JOB KILLERS**. . . . The end purpose of all production is consumption whether a slice of bread or a skyscraper. But production will not be consumed without purchasing power. While it is commendable for unions to demand higher wages the only logical goal is such collective amount as will purchase all production at retail sales price, thus enabling production to go steadily forward. But the difficulty is that industry is unable to pay out such wage because, among other conditions, **THE FLOW OF PRICES IS ALWAYS GREATER** than the flow of purchasing power, therefore the purchasing power which can be paid out in the process of production and distribution is less than the retail sales price. Goods are left unpurchased and after that—depression. . . . By having a proper amount of money handled in the interests of the people, the United States could produce and consume at last three times the goods and services as at present. Other nations could soon be producing much more under such favorable conditions. In this way the entire world could prosper rather than live in the dark ages of economic superstition and slavery. . . . In what is supposed to be the richest nation on earth, why is it necessary to collect old clothes for poor children so they can attend school? The reason is not difficult to find. Ford lays off 39 to 42 workers due to technology. . . . Free enterprise is not self-supporting.

Finally, may I refer you to "The Chart of Plenty", by Harold Director of National Survey of Potential Product—a committee of 60 technicians who spent a year surveying conditions in the U.S. Loeb's final conclusion is succinctly stated on page 164:

The answer to the dilemma is obvious.. Production (in the U.S.) is curtailed because buying power is lacking.

Production is dependent on many factors in the physical world. Buying power is a human institution subject to control. Nevertheless, production is cut to fit an inadequate buying power, instead of buying power (which can be raised or lowered at will) being raised to fit product capacity.

This procedure can only be likened to that of the ancient Greek innkeeper, Procrustes, who cut off the legs of his guests when they were to long for his beds.

The research of the N.S.P.C. indicates that the resources, manpower, equipment and technology existing in the nation are ample to provide a high standard of living for every inhabitant of the continental United States.

Fundamental cause of Depression

Let me repeat Loeb's crucial words again:

Production is curtailed because buying power is lacking.

That is the long and short of the whole question. The fundamental cause of depression can well be said to be lack of purchasing power or deficiency of purchasing power in the hands of the consumer.

There is no question about the fact that we actually can and do produce more than we seem able to market. I am not prepared to accept the cry of over-production as the reason. It is safe to say that we have never at any time produced more than was needed in one market or another. While one section of the world is embarrassed by so-called surpluses, a much greater section always is desperately in need of these so-called surpluses. But those in need, whether they be living within Canada or in other less favoured sections of the world, cannot satisfy their need because they simply haven't the money to pay the prices asked.

"Under-consumption" is a more acceptable and accurate conclusion than "over-production" ever will be.

All factors are of a financial nature

It should be apparent that all the factors comprising what we call a depression are basically of a financial nature. Farmers are unable to market their abundant crops, not because nobody wants or needs them, but because not enough people have sufficient money to buy the abundance produced. Again farmers cannot buy machinery they may require because they haven't sufficient money to pay for it. Men are thrown out of employment because their services are not required in the factories for the production of goods than cannot be sold. Wholesale and retail sales drop because the unemployed have been deprived of the money with which they formerly purchased the needs of themselves and their families. All these factors are financial.

The over-production of wheat or any other product does not bring on a depression. The lack of money is responsible. Money alone is the key to its solution.

Let us break in at the beginning of what is known as a business cycle. A crisis is approaching its sorry end. Government relief, business failures, a firm adjustment of debts, destruction and restriction of production, have all contributed to the reduction of inventories to a minimum.

There now is need for more products, and so the factory owner goes to his banker and convinces him that if he is allowed a substantial line of financial credit, he will be able to pay his obligation in due course. He goes into production, hiring men whose pay envelopes now provide funds spent for food,

clothing, rent, etc. This starts a chain reaction and soon other factories are negotiating other loans to finance still greater production. Unemployment is just a memory. The deflationary period is over.

Good times continue until the flaw in our financial system once more manifests itself and the inevitable surplusses begin to appear. Sales decline. Bankers become nervous in regard to their loans, and are not only reluctant to make further loans but are anxious to protect their positions by calling in advances already made. Purchasing power is decreased. Another depression has started! The cycle is running true to form.

How Depressions are Ended

Some of us will be familiar with conditions which prevailed in Canada from the bursting of the boom about 1912 to the outbreak of World War I. Without resorting to statistics, we can perhaps recall that times were bad. Conditions which prevailed in 1914 were repeated during the depression of the 1930's, on a greater scale. Fortunes disappeared as by magic. Soup kitchens were the order of the day. Unemployed begged on the street corners or canvassed for handouts at the kitchen doors of the nation. Hundreds of thousands were on relief. Destitution and desperation was imprinted on the faces of untold thousands.

Here are two depressions within the memory of many people living today. How did they end? They were ended in each case by the outbreak of war. Overnight, men found employment either in the army or in war industry. Overnight, factories were opened and began to fill their orders for war. In both cases, the depression was ended...by war. And as a result of financial measures immediately undertaken there was plenty of money to be had...almost overnight.

Yes, as soon as war broke out in 1914 and again in 1939, the chronic deficiency in purchasing power was immediately remedied. Some of the unemployed who had no purchasing power were taken into the army and immediately were in receipt of income. Others were put to work in war industries. Almost immediately everybody started receiving good wages—purchasing power that they did not have before—paid largely with borrowed money, the money that was claimed could not be found or borrowed before the war to finance the consumption of the nation's production. I do not mean to infer that all the people in the armed services and working in war industries came from the ranks of unemployed, not at all. The point I wish to make is that soon after the outbreak of war, there were no longer any unemployed in Canada, except the physically disabled or mental cases, and the purchasing power put into the pockets of people employed as the result of war resulted in the disappearance of the so-called surplus goods that existed before war broke out.

Why does it take a war with all its sufferings and heartaches to end a depression? Twice has this happened now in the memory of living man. Are we going to continue to allow depressions to creep up on us and then await the curse of another war to provide the necessary funds to enable us to consume what we are able to produce?

Must we accept the situation outlined by Sir Winston Churchill in his book "The World Crisis". In speaking of the Armistice Day of November 11, 1918, Sir Winston Churchill writes:

A requisition for half a million houses would not have seemed more difficult to comply with than those we were already in process of executing for 100,000 aeroplanes, or 20,000 guns or two million tons of projectiles. But a new set of conditions began to rule from 11 o'clock onward. The money cost, which had never been considered by us to be a factor capable of limiting the supply of the Armies, asserted a claim to priority from the moment the fighting stopped.

Sir Winston Churchill refers to the financial factor in war and peace. H. G. Wells, in his book, "The Shape of Things to Come", published in 1933, deals with the effect of war on production:

The war (1914-1918) from the economic point of view had been the convulsive using up of an excess of production that the race had no other method of distributing and consuming. . . . The postwar increase in war production, which went on in spite of endless palaver about disarmament, did not destroy men, nor scrap and destroy material, in sufficient quantity to relieve the situation. . . . The more efficient the output, the fewer the wage-earners. The more stuff there was, the fewer consumers there were. . . . This was the paradox of overproduction which so troubled the writers and journalists of the third decade of the twentieth century.

It has been pointed out that the U.S. economy after the second world war was saved from collapse, first, by the cold war with Russia, and secondly by the Korean "police" action. Both resulted in large numbers being taken into or maintained in the armed services, as well as millions employed once more in war industries, producing and stockpiling goods for the war effort. The effect that peace has on business can well be understood by recalling that when the rumours came out about peace in Korea the stock market took an immediate drop. In this respect it might be interesting to note a news item that appeared in the *London Times*, on July 16, 1953, which reads as follows:

Only War and Destruction Now Bring Prosperity

Mr. J. S. Gale, president of the National Council of Wool Selling Brokers, has announced that the record quantity of wool sold in 1952-53—namely 3,888,753 bales—earned Australia £ 404,756,387. . . . "Everyone hopes the buoyant conditions will continue throughout 1953-54", Mr. Gale said, "but there are some factors which induce caution when looking to the future. A peace in Korea, which we all hope is quickly reached, must have a depressing effect on all primary commodity prices." (*The Times*, 16 July, 1953)

Why A Depression Now?

The present crisis, if I may call it that, raises the question of why? Why all this concern about unemployment? Why this fear of peace? Why should the present situation degenerate into a full-scale depression?

Consider the physical aspects of Canada for a moment. Our capacity to produce has reached levels unprecedented in our history. Our labour force has never been more able, more numerous, more skilful or more willing to work. Our natural resources are the envy of the world, with new discoveries and new developments being added daily to our wealth. We are concerned with the overwhelming volume of unsold grain, butter, cheese, dairy and other farm products; with the great and growing stores, of our unsold lumber; with the fish we can catch but cannot sell, the fruit we can produce but which is allowed to go to waste.

We note with alarm the warning signals of another depression. Some people laugh when this warning is given. They also laughed in 1930 and claimed that the people talking about the seriousness of the unemployment problem and lack of markets for our Canadian products did not know what they were talking about. Who will forget the statement of Sir Hubert Holt, the great financial wizard of those days? I have already referred to it, let me repeat it:

. . . the strength of the business structure (in Canada and the United States) is such that there is no reason to look forward to more

than a moderate recession of business during 1930. . . . Neither the prospects in foreign trade nor the situation in Canadian industry, trade and agriculture warrant pessimism concerning the outlook during the coming year.

The "moderate recession" referred to by Sir Herbert Holt lasted 10 years—and it took a war to end it! Let those who are inclined to scoff remember Sir Herbert Holt. There can be no doubt that we are heading straight for another depression, unless we heed the warning signals that are there for everyone to see if they will, and unless the necessary steps are taken immediately to prevent it.

What are these warning signals?

These have appeared continuously in the pages of the press throughout the past year. Our attention has been called to all kinds of surpluses—surpluses of sugar, surpluses of cotton, surpluses of wine in France, surpluses of tomatoes, surpluses of tea, surpluses of tin, surpluses of agricultural products of all kinds.

The *Daily Express* of September the 29th, 1952, contained the following statement:

Surplus of Wheat

Wheat is overflowing in Canada's granaries. It is piling up in empty farmhouses, skating rinks and village halls and even in improvised cribs of tar paper in the open fields. There is enough to fill the goods trucks of a train 12,000 miles long; piled 50 feet deep, it would cover the road from London to Tunbridge Wells. It would last everyone in Britain three years if every man, woman and child ate a pound of bread a day. (*Daily Express*, 29 Sept. 1952.)

This statement was in September 1952, and since then two bumper crops have been added to the world supply of wheat. The situation has become so serious, that the farmers are unable to obtain payment for their year's labour because they are unable to sell their wheat.

Nor is Canada the only country facing a problem in the disposal of its agricultural products. The situation is worse still in the United States. It is estimated that the value of surplus farm products in the States is about \$6,500,000,000. More than 270,000,000 lbs. of butter is on hand, and this amount is increasing at the rate of 1 million lbs. daily. The supply of cheese exceeds 282,000,000 lbs. and is increasing at the rate of 1,500,000 lbs. daily. In 1953, U.S. fluid milk production jumped from 116,000,000 lbs. to 121,000,000 lbs. The amount of dried milk in storage now exceeds 470,000,000 lbs. Additional millions of lbs. of food lie in storage—honey, lima beans, olive oil, etc. *Time Magazine* for March 15, 1954 points out that:

Getting rid of farm surpluses, even in the form of gifts, is a tough job, despite the fact that many of the world's people are on the brink of starvation. At home and abroad, farmers and merchants are quick to protest cut-rate sales or giveaway programs that push down local prices. Accordingly, the surpluses have to be distributed outside normal trade channels.

The astounding fact that the butter situation in the United States is that despite these huge government surpluses the government found that it was cheaper to feed its armed forces with margarine than to supply them with butter!

But there is another warning signal; it is the growing unemployment situation in both Canada and the United States. It is estimated that unemployment in Canada is over the half million mark, up considerably since the same time last year, while in the U.S., the figure is estimated to be well over 3 million.

Stuart Chase ("For This We Fought, P. 41") estimates that in 1940 there were 45 million Americans at work. By 1945, the number of employed Americans had increased to 65 millions. This includes those employed in the armed services as well as in defence projects. As a result of full employment, Chase points out that "the volume of manufacturing trebled, and the output of raw materials rose 60 per cent".

Let us not forget however that this production consisted mainly of war materials "76,000 ships, 315,000 pieces of field artillery, 165,000 naval guns, 86,000 tanks, 2,400,000 war trucks and half trucks", and countless other items required only for war purposes.

Let us not forget either that during the cold war and the Korean conflict the production of consumer goods has risen to the point where we have now surpluses of all kinds in spite of the fact that millions of Americans were deriving their income from the armed services or the production of war supplies. These people are not needed to maintain full production of consumer goods. What will become of them?

It is a well known fact that economic conditions in the U.S. have a definite reaction in Canada. Significant warning signals are also to be found here.

The annual report of the Bank of Canada for the year 1953 indicates that:

1. Inventories increased in 1953 over 1952, particularly farm inventories and stocks of grain in commercial channels.

2. Expenditures on goods and services by all levels of government were 2 per cent larger in physical volume in 1953 than in 1952. This represents a distinct levelling off following the increase of 25 per cent which took place from 1951 to 1952 when defence expenditures were growing rapidly.

3. At page 3 we read:

In the latter part of 1953 employment did not keep pace with the annual increase in the labour force and in December the number of persons without jobs and seeking work was estimated at 190,000 as compared with 132,000 in December 1952.

4. At page 15 we find that our foreign trade position has been completely reversed from 1952. In 1952 we had a favorable balance of trade of 325 millions, whereas in 1953, we imported 214 millions dollars worth of goods in excess of our exports. Could there be any relationship between our increased inventories and our decreased exports?

The situation has deteriorated even more since the end of the year. It is folly to close our eyes to these danger signs, particularly to our increased supply of goods and increasing unemployment. What will happen if our productive machinery is operated at full capacity again this year—or will it so operate now that the shooting war in Korea is over?

Conclusion

Must we have a depression simply because our productive capacity is so great? Must the business cycle of boom and depression be accepted as the working of some immutable, divinely-inspired law? Is war the only answer to the problem?

Stuart Chase, in his book "Where's The Money Coming From", states at page 7:

One can begin to discover a rough cycle in the performance of the modern economy, where mass production outruns mass consumption. Machines grind and produce a mountain of goods. The goods pile up and presently choke the machines. The machines go on half time or stop altogether. The plethora of goods must be dynamited out of the way so that the machines can start again, and their human tenders can work again. Only total war has so far provided the requisite amount of dynamite.

Why must it be war? Is there no alternative to war to solve the problem?

Business cycles are due to man-made causes and can be controlled by man. They are the inevitable result of present banking practice and the limitations of our financial system. They are the result of financial policy determined by those charged with the administration of our financial system. That they occur with measurable regularity is due to two main factors:

First, the physical inability of the present financial system to distribute purchasing power by means of wages and salaries in sufficient amount to buy our total production. Secondly, the inability of the banking system to go beyond what is considered to be sound limit of credit expansion, and put into circulation, interest free the amount of purchasing power required for the full distribution of all the goods and services we are able to produce.

There can be no doubt that deficiency in purchasing power is the chief cause of our economic difficulties today. The remedy cannot be implemented under existing Canadian banking legislation, because it makes provision that all new money issued by the chartered banks shall be put into circulation as a debt. We feel the proposals we have to offer to remedy this problem are sound and if implemented will make physically possible the highest standard of living for all Canadians that our vast resources of material wealth and manpower will permit.

What are these proposals?

PART III

PROPOSALS

PROPOSAL No. 1

1. Section 23 of The Bank of Canada Act, should be amended to eliminate the provision requiring the Bank of Canada to maintain a gold reserve of 25 per cent against its outstanding notes and deposit liabilities; and Section 25(1) of the Currency, Mint and Exchange Fund Act should be amended to eliminate therefrom the authority of the Governor-in-Council to require the Bank of Canada to hold a 25 per cent reserve in gold or foreign exchange in relation to its liabilities.

Some people hold the view that in order to be sound, the money of a country must be based on gold, that recognition of the gold standard is essential. Yet, whenever a country has faced a financial crisis, one of the first things it has had to do in order to meet the financial crisis, was to abandon the gold standard. Canada was on the gold standard before the First World War. But as soon as Canada entered the war in 1914, there was a run on the banks in Montreal and Toronto and in order to avoid financial panic, the Canadian government was called upon for help. What happened?

At the time war broke out in 1914, the Minister of Finance under the Dominion Notes Act was required to hold a reserve of 25 per cent in gold or debentures guaranteed by the government for the first \$30,000,000 of dominion notes issued. All dominion notes issued over \$30,000,000 required a 100 per cent gold reserve (MacMillan Report on Canadian Banking, PP. 21-22).

When war broke out, the 30 million dollar limit on the issue of dominion notes was raised to 50 million, under the Finance Act enacted in August 1914. Before the war ended, a total issue of 126 million dollars of dominion notes had been issued, far in excess of the 25 per cent gold reserve requirement.

To assist the chartered banks to meet the financial crisis at the outbreak of war, the dominion government made advances to the chartered banks of large sums of dominion notes, suspended the redemption of bank notes in gold, and made the dominion notes legal tender for the redemption of chartered bank notes, authority for which had been provided in the Finance Act. In other words, Canada abandoned the gold standard. As soon as the gold standard was suspended and the Canadian government took these emergency steps, the financial affairs of the country became stabilized.

Canada remained off the gold standard until 1926, when it once more joined other nations in returning to the gold standard. It was not for long, however, because as soon as the depression hit the country and the rest of the world in the early thirties, the financial system started feeling the squeeze once more. England went off the gold standard in 1931, followed in 1933 by the United States and in 1936 by France, Holland and Switzerland. This was three years before the second world war.

The Bank of Canada Act of 1934 provided for the issue of Bank of Canada notes, backed by a 25 per cent reserve of gold. This gold restriction was removed however, in 1940, in order to enable the Bank of Canada to expand its note issue far beyond the issue made possible by the 25 per cent gold reserve restriction. The suspension of the 25 per cent gold reserve under the Bank of Canada Act was continued from year to year by order-in-council, until in the year 1952 the Currency, Mint and Exchange Fund Act was amended to eliminate the necessity of these annual orders in council. Section 25 of the Currency, Mint and Exchange Fund Act, enacted in 1952 reads as follows:

25. (1) Notwithstanding section 23 of the Bank of Canada Act, the Bank of Canada is not, unless the Governor in Council otherwise prescribes, required to maintain a minimum or fixed reserve ratio of gold or foreign exchange to its liabilities.

(2) The form of Schedule B to the Bank of Canada Act is, until such time as the Governor-in-Council otherwise prescribes, amended by deleting the statement of the ratio of the net reserve to notes and deposit liabilities.

The restriction imposed by a gold reserve on the issue of Bank of Canada notes would have a very decided bearing on the cash reserves of the chartered banks and their deposit liabilities. Should the Canadian government decide tomorrow that the Bank of Canada should operate once more on a gold reserve basis, the Bank of Canada would have to call in a vast amount of its notes in circulation, or take action to reduce the chartered bank deposits with the Bank of Canada. This action would reduce the cash reserves of the chartered banks under the Bank Act and consequently the chartered banks would have to reduce their deposit liabilities tremendously by calling in their loans.

It is inconceivable that the Canadian government would make such a request without proper notice. We realize, however, that the power is there to be used whenever in the thinking of Canadian government officials it should be used. And that is what disturbs us. The only possible explanation that can

be given for the retention of this power on the statute books is that some day in the future the Canadian government feels that it might be desirable to return to the gold standard. What concerns us still more is that this power can be exercised by the Canadian government at any time without consulting parliament. If this decision is ever to be made, we feel that it should be exercised only by parliament because that decision will affect the standard of living of every Canadian citizen.

Why is it that we cannot learn from the lesson of history? The gold standard has been discredited in just about every country in the world. All the leading countries of Europe, even the United States of America, have had to suspend the operation of the gold standard. Why even consider it again? Certainly it is not necessary for purposes of our internal economy. Instead of helping our internal money system, the gold standard can only hamper it by the imposition of artificial restrictions that have in the past resulted in tremendous losses.

One of the main arguments advanced during the early depression days in the United States, to prevent the adoption of any relief program to cope with unemployment, was that the adoption of any such program would drive the country off the gold standard. This is an illustration of the extent to which some people will go in their attempt to protect the sanctity of gold rather than the sanctity of the individual. "The gold standard is saved at the cost of unemployment". Stuart Chase in his book "Tomorrow's Trade".

It soon became evident to the government leaders in the States that this contention was correct and that they would have to choose between unemployment and the gold standard. Faced with this dilemma the gold standard was thrown overboard. The same choice faced Canada and every leading country in Europe.

Why then even consider as a possibility a return to a system that history has proved time and again leads only to unemployment and depressions?

Some advocate the necessity of the gold standard for purposes of foreign trade. Is this sound? There is of course some merit in having a recognized standard of value in foreign trade transactions, and for this purpose gold may well be used, providing it is on the same basis as a foot or a metre are recognized as standards of lengths; an imperial gallon, as a recognized standard of volume or a ton as a recognized standard of weight. But a standard of weight or a standard of length or a standard of value is an entirely different thing to exchanging goods for unit of length, weight, volume.

There are only two ways in which foreign countries can pay for imports or for the goods they buy. The first is payment in goods, or the exchange of commodities between countries. The second is payment in money. In foreign transactions, the two kinds of money are gold and legal tender money recognized for use in the country. Legal tender money is now mostly paper money. For instance, in Canada it consists of Bank of Canada notes; in Great Britain, Bank of England notes, etc.

There are only four ways in which a country can obtain the necessary money to pay for the goods it buys.

1. By exporting goods itself which will give it a claim for legal tender money or gold on the country to which it exports its goods. The money thus obtained can be used for payment of imports from the same country. This in effect is barter with money used by both countries as the means for settlement.

2. Through invisible services, such as expenditures of money by tourists. If Canadians spend less money outside of Canada than American tourists spend in Canada, we benefit by a net increase in American dollars.

3. As a loan either from the country supplying the goods or from some other country. The proceeds of the loan can be used to pay for imports. The loan of course becomes a debt usually payable to the exporting country.

4. By receiving an outright gift from the country supplying the goods. This outright gift usually is not made in money but in goods. During the world war of 1914-1918, an outright gift of money was made to Great Britain by Canada to help her finance her war effort. We had the same situation again during the second world war, when one billion dollars of money was given as an outright gift to Great Britain for the purpose of assisting her to finance the war effort. Most of this sum was used in buying Canadian goods.

Over and above these gifts of money however, both Canada and the United States have made tremendous gifts of goods to nations who were in need and yet did not have the money needed to pay for these goods.

It is becoming increasingly evident that international trade must be conducted on the basis of barter. Most of the gold in the world today is stored underground in Fort Knox. The problems of foreign trade have been increased by the fact that the countries to which we or the United States are exporting goods today have no gold with which to pay for the goods they import. Furthermore, we complicate the situation by refusing to accept their currency in payment for the goods we export. Frequently we even refuse to take their goods in exchange for our own goods. This refusal to take goods in payment for goods is made effective by the imposition of tariffs by all the nations of the world.

It has been stated that Canada must export in order to survive. Ours is primarily an agricultural economy. We produce such large surpluses of agricultural products particularly, that unless we can find the markets for our agricultural products our whole economy is disrupted.

If the farmers are unable to sell their wheat, then they are deprived of the necessary income to purchase farm machinery and the abundance of consumer goods we are able to produce in Canada or are able to acquire from outside of Canada in exchange for our wheat.

If however, the countries that require our wheat have not the necessary gold or Canadian currency accumulated through tourist trade or other means to pay for our wheat, then the only way in which they can get our wheat is by an exchange of some of their own goods. If on the other hand we impose tariffs against the goods these other countries seek to export to us, (Belgian glass, English woollens, and so on), in exchange for our wheat, how then can these countries buy our wheat or take our wheat in exchange for their goods? That is the vital problem that is facing Canadian foreign trade. This problem cannot be resolved by going back to the gold standard, or insisting on payment for our goods in gold, because these countries have not the gold with which to pay for our Canadian goods.

One remedy would be to lower our tariffs and to take in Belgian glass and British woollens and German automobiles in exchange for Canadian wheat, and thus enable these foreign goods to compete with our own Canadian made goods on the Canadian market. This of course would result in further unemployment in Canada, because the imports of these foreign goods would displace the production and sale of our own Canadian made goods thus throwing our own Canadians out of work.

There is a remedy however, and it is this. The Bank of Canada should be used to provide less fortunate foreign countries with the necessary dollars to buy our Canadian wheat with the understanding that we would have a claim on any surplus goods produced by these foreign countries, or their creditors, if we desire.

If we are not prepared to accept from these foreign countries their surplus goods in exchange for our own surplus wheat and other goods either because we do not need the goods or do not want their goods, then the loan made to these countries by the Bank of Canada to buy our Canadian wheat and other surplus agricultural products should be cancelled.

It is far better to export replaceable assets such as wheat, than the irreplaceable assets such as iron ore and so on, as we did for destructive purposes during the war. We are far better to use our agricultural products for the purpose of keeping the standard of living of our own Canadian people on a high level and at the same time, increase the standard of living of less fortunate people in foreign countries, than to drag down the standard of living of our own people to the level of nations less fortunate than ourselves. If we do not export our surplus goods, we will find our Canadian economy back to the point where it was in the hungry thirties.

It is for these reasons that we recommend that the Currency, Mint and Exchange Fund Act and the Bank of Canada Act should both be amended, in order to eliminate any possibility of a return to a gold reserve as backing for the issue of Bank of Canada notes.

It might be pointed out in passing that this provision would conflict with the Bank of Canada Act, the object of which, according to the preamble of the Bank of Canada Act, is:

to regulate credit and currency in the best interests of the economic life of the nation. . .

How can we have effective regulation of credit and currency if the provision of the Act limits the amount of currency and credit to such an extent as to cripple the economy of the country? It has happened before and it can happen again.

Finally, I would like to point out that this proposal is the basis of the implementation of our second and third proposals, the effect of which will be the establishment of an effective policy "to regulate credit and currency in the best interests of the economic life of the country". This cannot be done if our monetary system is to be hampered by artificial restrictions that cannot work and that have always had to be suspended in times of crisis.

This leads me to a consideration of our second proposal.

PROPOSAL No. 2

(1) Section 59 of the Bank Act should be amended to provide that the chartered banks should be required to maintain 100 per cent cash reserves for any deposit liabilities they incur in excess of their deposit liabilities as at the date this amendment comes into force.

(2) The Bank of Canada Act should be amended to authorize the Bank of Canada to advance to the chartered banks such cash reserves as are necessary to enable the chartered banks to comply with this requirement and at the same time expand loans to whatever extent is necessary to ensure the progressive development of the national economy.

These proposals recognize fully the importance of the Canadian banking system to the Canadian economy. There is no doubt that the Canadian banking system is an excellent and efficient system. It is essential to the Canadian economy in order to provide the necessary funds for investment in capital assets, the production of consumer goods and the payment of services in connection therewith. In other words we firmly believe the banking system should continue to operate in the field of merchant banking. It is because the banking system is doing an efficient job within its field of activity that we are opposed to the socialization or the nationalization of the chartered banks. We question

very much whether there could be any improvement in the operation of the chartered banks, by making them adjuncts of the Bank of Canada or by making them a department of the Canadian government.

We pointed out that within its field of activity the Canadian banking system is doing an excellent job. There is a field, however, in which it cannot efficiently operate. We have already discussed this question at length, and do not want to repeat here all that we have said previously. We think it is well to state again that when the economy of the country is facing a depression as indicated by surplus goods that remain undistributed and the mounting number of unemployed, it cannot be expected that the Canadian banking system should continue making loans for the production of goods which will only add to the surplus already existing. It is folly to expect the Canadian banking system to make loans (and this is the only way the Canadian banking system puts money into circulation) to enable the people to buy and consume goods the production of which has already been financed through loans made by the banking system. The Canadian banking system, after all, is a profit making institution operating for the benefit of its shareholders, and not for charitable purposes. This being true, chartered banks cannot be expected to issue money without interest because the money so issued would return no profit to the banking system and no dividends to the shareholders.

Supply of Money essential

Issuing money without interest can only be done through government action, and the government should accept this responsibility. Why? Because money constitutes the very economic lifeblood of the nation. Without money we would have to resort to the old system of bartering wheat for furniture and cabbages for clothing. There must be sufficient money in circulation to enable the country to operate its business economy efficiently. We have already seen that the only way in which that money can be put into circulation by the chartered banks is as a debt which must be repaid along with interest. We have also seen that such a procedure can only result in the ever-increasing accumulation of unpayable debt.

A constant and adequate supply of money is essential to the economy of the nation. How then can any additional money required be put into circulation interest free without being used by the chartered banks as the basis for further expansion of credit resulting in a serious inflationary condition with all its attendant evils?

Let us take a look at some figures for the purpose of illustration.

The Bank of Canada report for the year 1953 gives us the following information as at December 31, 1953.

Chartered bank cash reserves	\$ 888,000,000
Deposit liabilities (Government and general public)	8,534,000,000

If the government were to put into circulation \$500,000,000 of new money created at cost by the Bank of Canada, this \$500,000,000, under the present banking legislation, would very soon constitute cash reserves and could be used by the chartered banks to expand credit up to 5 billion dollars. This could possibly create quite an inflationary condition.

It is to avoid the development of this situation that we suggest that banking legislation should be amended, in order to maintain the present status of the banks whereby the banks insofar as the existing cash reserve requirements are concerned could expand credit on a 10 to 1 ratio. Insofar as any additional cash reserves, however, put into circulation by the government, these could not be used for the expansion of credit.

Does this mean the development of the country would become static?

No, first the additional moneys put into circulation by the government could be used by the ultimate recipients to expand their business activities without having to borrow all the money required from the banks.

Secondly, as and when additional funds were required for the further general economy of the country in financing production, these could be obtained by the chartered banks from the Bank of Canada, in the form of credit advances, on such terms as to make it possible for the banks to continue to pay interest on term savings.

If the amendments recommended were not enacted, the chartered banks could thwart any attempt by the Bank of Canada and the Canadian government to put into circulation a limited amount of money at cost to finance the distribution and consumption of our surplus production. Action could be taken by the chartered banks to this end, not only by using the money so issued at cost as cash reserves for the purpose of expanding credit but also by the sale of Canadian government securities from their portfolio, or hypothecating their securities with the Bank of Canada.

We have already seen that cash reserves consist of Bank of Canada notes held by the chartered banks and chartered bank deposits with the Bank of Canada, and these deposits constitute a claim on the Bank of Canada for Bank of Canada notes.

We have also seen that chartered banks may increase their cash reserves by selling or hypothecating their securities, i.e., government of Canada bonds to the Bank of Canada. In either case it obtains the necessary cash reserves to serve as the basis for the expansion of credit. The practice of a central bank making loans to banking institutions, although not usually followed by the Bank of Canada, is common practice by the Federal Reserve Board in the U.S.

The return of the chartered banks of Canada for the year 1953 published in the *Canada Gazette* of February 6th, 1954, reveals that the total amount of Canadian government long and short term securities held by the chartered banks amounted to \$2,760,166,000.

Were the chartered banks to sell or pledge to the Bank of Canada only \$500,000,000 of these securities, they could obtain the necessary cash reserves to expand credit by 5 billion dollars.

Thus it will be seen that it is essential to prevent the banks from expanding credit beyond the present ratio to their cash reserves if any program for the issue of money at cost is to be effective.

There are alternatives however, to accomplish the same objective. One would be to simply increase the ratio of cash reserves thereby preventing the banks from increasing loans beyond their present figures. This procedure however, could also be used to require the banks to reduce their loans. Even if the reduction in purchasing power due to a drastic reduction in loans were to be met by an equivalent supply of money issued at cost, put into circulation by the Canadian government, still any substantial reduction in loans could well affect the productive effort of the country, again resulting in an inflationary situation.

To avoid the development of this situation is the first reason why we recommend that the banks should continue to maintain their deposit liability on a 10 per cent cash reserve ratio as at the date the amendment comes into force.

The second reason is because of the effect on the profit and loss operations of the chartered banks.

There may be some undue concern over the loss of profits that the chartered banks might suffer as the result of this proposal. It will be pointed

out that the implementation of this proposal will have the result of requiring the banks to service a large amount of deposits without any revenue therefrom.

Let us not forget that originally people deposited their money with the banks for safekeeping, and paid the banks for the services rendered. It was only when the banks discovered that they could use the peoples' deposits to their advantage that instead of charging the people for keeping their money safely and providing the check system for the payment of accounts, the banks started inducing people to deposit their money with the banks by paying them interest to do so. We see no reason why the banks while continuing to pay interest on savings deposits should not continue the practice of charging a small fee for servicing current accounts if necessary.

But would this really be necessary? Should we be really concerned about a reduction in the profits of the chartered banks. Let us go back for a moment to 1867. In the Year Book of Canada of that year, we find the following statement:

With little exception the banks pay very large dividends of from 6 to 8 per cent.

What would the author of this statement of 1867 write about the bank profits today? Before reviewing the actual profits made by the chartered banks during the last few years let us look at their main source of revenue, namely, interest on loans.

Here is how interest accumulates. When I deposit a thousand dollars in the bank in cash, under existing provisions of the Bank Act, the bank is in a position to make loans amounting to \$20,000.00 on the strength of my deposit. In practice however, the bank only expands credit in the ratio of ten to one. Consequently, on the strength of my deposit of one thousand dollars in cash, the bank can and does lend ten thousand dollars. The bank rate of interest today is 6 per cent, but to use a somewhat arbitrary figure, let us say 5 per cent is the average rate of interest. Even that may be somewhat high. The return to the bank is not 5 per cent on the \$1,000 I have deposited, or \$50, but rather 5 per cent on the \$10,000 issued in loans by the bank, or a total return of \$500. This \$500 represents a gross rate of return of 50 per cent to the bank on the strength of my deposit of \$1,000. There are many people who feel that the interest rate of 24 per cent that the Canadian government permits the small loans companies to charge is excessive. Yet this is only half the rate of returns earned by the chartered banks on the bank credit they create and issue in the form of loans up to 10 times their cash reserves.

Let us take another illustration. A bank has a \$1000 Canadian Government Bond. It could sell the bond on the market or to the Bank of Canada, or it could borrow \$1,000 from the Bank of Canada and deposit the Canadian government bond as security for the loan. The chartered bank would thus increase its cash reserves by \$1,000. In the event of a loan obtained from the Bank of Canada, the chartered bank might have to pay a nominal rate of interest to the Bank of Canada. This cash reserve immediately enables the bank to expand credit by way of loans to its customers to the extent of \$10,000.00. Here again the return to the bank is \$500 on the basis of 5 per cent interest on the \$10,000 advanced. This \$500 represents a gross rate of return of 50 per cent to the bank on the \$1,000 cash reserves obtained by selling the government bond or hypothecating it with the Bank of Canada.

Let us now take a look at the profits of the chartered banks. I have a statement I would like to file as exhibit B showing the net profits, the percentage of profits to paid-up capital and the rate of dividends paid by all the chartered banks for selected years during the great depression, the second world war, and the most recent years. I do not wish to read all these figures but

a glance at the table will reveal that the dividends paid for the past few years have varied from 10 to 16 per cent except for La Banque Provinciale du Canada, where the dividend rate has been maintained at a fixed 7 per cent. Even during the depression however, it will be noted that the rate of dividend varied from 8 to 10 per cent, the only exception again being La Banque Provinciale du Canada. Its lowest dividend rate was 6 per cent.

But there is even more. The dividends paid by the chartered banks do not tell the full story of their profits. We have already seen that the net profits of the banks are not all paid out in dividends.

Part of the earnings of the chartered banks are transferred to a "rest" or "reserve fund" for the benefit of the shareholders. In this connection it is interesting to note that while the total authorized capitalization of all the chartered banks amounted to \$231,000,000 as at the end of 1953, yet only \$152,500,000 had been subscribed and paid up. At the same date the "Rest or Reserve Fund" for the shareholders amounted to \$260,400,000—\$108,000,000 more than the total capital paid up by the shareholders'.

Nor is this all. In the issue of Hansard of March 3, 1954, at page 2615 we find that the following sums have been transferred to contingent reserves by the 10 chartered banks collectively:

1945	\$ 22,244,000
1946	—6,902,000
1947	17,243,000
1948	15,524,000
1949	20,993,000
1950	20,600,000
1951	27,965,000
1952	27,069,000
1953	24,834,000

Net transfer	\$169,570,000
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It will be noted that since 1945 the total amount transferred to contingency reserves is \$169,570,000, or an average of approximately \$19 million a year. This figure is nearly as great as the amount of profits that the banks paid out in dividends in the same period of time. It is far greater than the amount set aside during the same period of time in the net or reserve fund for their shareholders.

Besides this contingent reserve the chartered banks have shareholders reserves and depreciation reserves. It is interesting to note that the rest fund of the chartered banks increased from \$136,755,000 in 1943 to \$260,400,000 in 1953.

What is the contingent reserve? It is a reserve established to provide for any market depreciation in the published value of the assets of the chartered banks. It would be interesting to know what losses—if any—have been suffered by the chartered banks through the sale of assets below the par value, or the purchased value, as well as what capital gains have been made by the chartered banks in the sale of securities purchased at par or under par. This is an aspect of banking that I do not propose to pursue because it does not affect the principle we are endeavouring to establish. But it would be most interesting to have this information.

Banks as Public Utilities

While the implementation of proposal number 2 will affect the level of profits of the chartered banks, it will on the other hand help to guarantee a high level of business activity which will undoubtedly result in a further expansion of the banks business.

The operations of the banks constitute just as much—and even more so—a public utility as the Bell Telephone system, power companies, railway companies, etc. Milk in many provinces—Alberta is one of them—has been established a public utility. Surely no one will deny that a sufficient and constant supply of money is just as necessary to the economy of the country as transportation, power, telephones, and milk. Why then should the chartered banks claim the right to make far greater profits than any other public utility?

Although the implementation of proposal number 2 will admittedly affect the profits of the chartered banks, this is not the main object of the proposal.

The possible reduction in the profits of the chartered banks is purely incidental to the main objective, which is greater control of the money issued as an interest bearing debt by the chartered banks and the increased circulation of money issued at cost by the Bank of Canada to effectively finance consumption of our vast production potentialities.

I realize that some people will immediately raise the bogey of printing press money and inflation. I will deal more fully with the question of inflation in discussing Proposal No. 3.

In the meantime let me put forward these questions for consideration:

1. Is it inflation for the chartered banks to expand credit money—fountain pen money—up to 10 times the amount of its cash reserves?
2. Is it inflation if the banks charged 6 per cent interest on this expansion of money?
3. If instead of the chartered banks being required to retain cash reserves up to 10 per cent of their deposits, the percentage were increased to 20 per cent, would this be inflation?
4. If the banks were required to reduce their deposit liabilities to within 20 per cent of their cash reserves and the amount of the reduction were to be made up by the Bank of Canada, would the amount so issued by the Bank of Canada to replace the amount withdrawn from circulation by the chartered banks constitute inflation?

These questions are asked to make one point clear. Up to now we have not discussed any increase in purchasing power or in the amount of money in circulation. All we have proposed thus far is the limitation of the issue of bank credit by the chartered banks for the purpose of enabling the Canadian government to put into circulation a limited amount of money issued at cost by the Bank of Canada. This in itself is already a great achievement and would certainly be a step toward the elimination of the weaknesses of our Canadian Banking system, namely, that there is no other possible way for chartered banks to issue money except as an interest bearing debt, which can never be paid back in full without default, repudiation or bankruptcy. This weakness as we have already pointed out, leads to a chronic deficiency in purchasing power and is one of the main reasons why we have unemployment and the existence of so-called surplus goods.

I wish to repeat. The chartered banks make absolutely no provision for issuing interest free purchasing power required to finance the consumption of the surplus goods we are able to produce—and have produced. It is the obvious responsibility of the Canadian government to remedy this weakness.

How can the Canadian government put into circulation interest free money created by the Bank of Canada and designed to supplement the amount of purchasing power in circulation?

This leads me to a consideration of our third proposal.

PROPOSAL No. 3

The Bank of Canada Act should further be amended to provide that the Bank of Canada shall credit the account of the Canadian government at cost with such sums of money as may be necessary from time to time to supplement the aggregate money supply of the country, the purchasing power so issued to be put into circulation by the Canadian Government in one or more of the following ways:—

- (a) As payment of some of the services provided by the government namely, veterans benefits, family allowances, old age pensions and security payments;
- (b) For the gradual retirement of the public debt;
- (c) In payment of capital expenditures, other than in the industrial field;
- (d) As subsidies for the purpose of reducing consumer prices and preventing inflation;
- (e) In payment of consumer dividends to the extent necessary to enable the distribution and consumption of available goods and services.

This proposal constitutes a considerable departure from the existing concept of a central bank. But it is time we faced realities and recognized that in this country the age of scarcity during which existing banking policies and banking principles were developed has long since disappeared, and that our main problem today is not the need of expansion of credit by the banks to finance production but rather the necessity of adequately financing consumption.

As we have stated the basic reason for the existence of the chartered banks is to make money—i.e. profits—for their shareholders. Their main source of revenue is from the interest charges they make—not on loans made by lending the cash deposited with them by their customers—but rather on the loans made by expanding credit—“fountain pen” money. This already has been covered fully.

The Bank of Canada has been called the bankers’ bank. It undoubtedly has assisted the chartered banks to carry on their business more efficiently, for the greater benefit of their shareholders and for the greater protection of their depositors. It was never the intention however, that the Bank of Canada should direct the chartered banks to expand credit in any other way except in the form of interest bearing loans.

In the Canadian MacMillan Report on banking and currency, we find at page 69 a summary of the positive services that could be performed by a central bank in the following words:—

...it (a central bank) would substitute for the present undeveloped and anomalous system a more rational and unified control over the credit structure; it would provide a suitable instrument for the execution of a national policy in regard to the external value of the currency; it would be increasingly a source of skilled financial advice for the dominion and possibly for the provincial governments; and, finally, it would provide a central body which could maintain relations with similar institutions in other countries, which find at present no counterpart in Canada with which to maintain contact.

While recognizing the advantages to be gained by the organization of a central bank, the MacMillan Commission nevertheless points out that a central bank is not a cure-all. In paragraph 235 we read:—

A central bank could not cure all the economic ills of Canada; it would not be a source of unlimited credit for all borrowers on all occasions; indeed its operations might as often be restrictive as expansive.

It is clear from these quotations that the Bank of Canada was never visualized as other than an institution that would operate in an orthodox manner under an orthodox financial system. It has been pointed out that the main function of the Bank of Canada is to regulate and control the issue of money and credit. It was never contemplated by the MacMillan Commission that the Bank of Canada should make loans at cost to the Canadian government or to issue money at cost to the Canadian government to finance a part of government expenditures.

It is folly of course to expect that the chartered banks should use their facilities to expand credit to finance the consumption of goods already produced through loans made for that purpose, when it is obvious they could not obtain any returns, i.e. make any profits, from interest free money put into circulation to finance consumption. It is not folly however, to expect that the Bank of Canada, which has at its disposal all the machinery necessary to do so, should provide the Canadian economy with the necessary supplementary purchasing power, which obviously cannot come from the chartered banks, to finance the distribution and consumption of goods the production of which has been financed by the chartered banks and which are surplus to the ability of consumers to buy. That is the crux of proposal No. 3.

This revolutionary concept in our monetary system was forecast long ago. As one example the magazine "Food For Thought" official organ of the Canadian Association for Adult Education, started publication in Toronto at the beginning of the second world war. The issue of September, 1942, contains an article written by the editor, C. E. Silcox, entitled "Morale and Money", in which we find the following statement:—

"A New Monetary System Coming"

It must be clear to all that the world is moving towards the adoption of a new monetary system. We are already half-way committed to it, and the sooner the man on the street can catch glimpses of this new system, the sooner will he believe that our way of life is worth living for, fighting for, dying for. Morale is sustained by hope more than by fear. Men who have seen their savings swept away by the old impossible monetary system with its recurrent booms and depressions, and by an utterly irrational system of taxation respond today with approval to the statement of the Archbishop of Canterbury that finance must be reformed, that we must restore the natural sequence of consumption, production and finance, and not allow money to dominate the whole economic structure. That is the essence of the monetary revolution of tomorrow—it is the moralization, for the first time in history, of money. We are in the transition from a mercantile economy to a welfare economy, made possible by the machine and the techniques of modernity, and woe to the man who tries to drive humanity back to the old slavery! With constantly expanding production, there should be constantly expanding credit or money, although new rules may have to be made to determine the criteria for judging when a nation has more than enough "money" in circulation.

The introduction of this new principle into our monetary system cannot be delayed much longer without disastrous results to our economy, and for that matter to our modern civilization.

We owe it to those who gave their lives to make this a better country to live in to see to it that never again will we face another depression and unemployment simply because of the inability of our banking system to put into circulation the purchasing power required to finance the distribution and consumption of goods already produced. That is why we advocate this change in the Bank of Canada Act immediately.

The implementation of proposal No. 2 will provide the chartered banks with all the money required to enable the Canadian economy to meet the production requirements of the country. Proposal No. 2 will not however enable the banks to put into circulation the additional amount of money that may be required to enable the people to consume the goods already produced. In other words, proposal No. 2 does not provide money to meet any deficiency in aggregate purchasing power that might exist. The implementation of proposal No. 3 will provide the necessary money issued at cost by the Bank of Canada to accomplish this purpose. How can this be done?

There are several ways in which increased purchasing power can be put into circulation by the Canadian government but we feel the proper place to start is in the field of social services.

In the public accounts of Canada for the fiscal year ending March the 31st, 1953, we find the following expenditures incurred by the Canadian government in various fields of social services, namely:

Family Allowances (P. 37)	\$334,200,000.00	
Veterans Affairs	241.7	
Less Administration	14.7	
	<hr/>	226,700,000.00
	226.7	
Contributions to		
a) Old Age Pensions	\$19,136,306.00	
b) Blind Pensions	2,986,156.00	
	<hr/>	
	\$22,099,462.00	\$ 22,099,000.00
Old Age Security		
(See Table O-51)		323,141,000.00
		<hr/>
Total		906,140,000.00

Who will argue that the old age pensioner or the blind pensioner is receiving adequate purchasing power to meet even his bare necessities? The total pension of \$40 a month paid jointly by the Canadian government and the provinces certainly is not enough under present circumstances to provide these pensioners with the standard of living that our vast resources could justify. Yet the reason why more adequate assistance is not forthcoming from the Canadian government is that we cannot afford more!

In Alberta we realized that \$40 was far from sufficient. We are now supplementing this amount by an additional \$15 a month paid entirely by the province! Other provinces also are paying supplementary pensions for the same reason.

In so far as the old age security payments and the family allowance benefits are concerned, it may well be argued that there are some people receiving these benefits, who do not need them and consequently any increased benefits paid to these people, would not necessarily constitute an increase in purchasing power. With that we must agree. But I think it will be recognized by all that this constitutes a very small minority of all the people now receiving old age security benefits and family allowance benefits.

The same applies to veterans' benefits.

We would recommend therefore, that these social service benefits be increased 50 per cent immediately. This would result in an increase of purchasing power to the extent of \$450,000,000 where it will be doing the most goods, i.e. where the money paid out will be more readily spent. We recommend further that this amount of money be issued to the Canadian government by the Bank of Canada at cost. This of course would be increased purchasing power.

Furthermore let us not forget that the social service benefits now paid by the government are paid from the proceeds of taxation. We recommend that part of the cost of these social service benefits could well be paid by money issued at cost by the Bank of Canada, with a reduction in taxation. This reduction in taxation does not mean an increase in aggregate purchasing power, because the money paid in taxes to the government is put back into circulation by the government. It does mean however, a reduction in the cost of government services. The cancellation of some taxes would result in far greater benefits to ultimate consumers than only a reduction in the cost of government.

Take the sales tax for instance. This is the tax that bears most heavily on the people and increases the cost of living of the people.

Let us take a look at the figures:

On pages 23 and 24 of the Public Accounts for the Fiscal Year ending March 31st, 1953, we find the following information:

Revenue from general sales tax (8 per cent)	\$553,840,000.00
Old Age Security Sales Tax (2 per cent)	114,600,000.00

Total sales tax collected	\$725,440,000.00
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The sales tax is collected at the manufacturer's level, and it pyramids as the wholesaler and retailer add their markup to it. The result is that the sales tax paid by the people is not 10 per cent, but may be as much as 25 per cent on the retail price level.

It is difficult to obtain definite statistical information on this point, but there can be no doubt about the principle involved. In a study called "Taxing to Prevent Inflation", published in 1943, Dr. Carl Shoup of Columbia University made the following statement:

Both (manufacturers' and wholesale sales) taxes may result in some pyramiding: that is, the retailer and, under the manufacturers' tax, the wholesaler also, may apply their customary percentage mark-ups to a cost price that includes the sales tax, thus obtaining a profit on the tax.

The extent to which this pyramiding has been carried on in Canada can be gathered from reading the report prepared by H. R. Archibald Harris, C.P.A. on the results of his investigation into the Canadian sales tax for the Illinois and Indiana Bankers Association. At page 35 of the report entitled "The Sales Tax in Canada", published in 1923, we find the following statement:

The so-called painlessness of the Canadian tax is costing the taxpayer about 40 per cent more in taxes than would be necessary if the tax were simply added on to the price which the consumer finally pays, instead of being put on the sales price of the manufacturer.

In the light of these statements no one should challenge our statement that the sales tax pyramids retail prices.

The elimination of the sales tax therefore would have the effect of leaving with ultimate consumers an amount of purchasing power which would have a stimulating effect upon business much to the advantage of the whole economy.

The elimination of the sales tax with the greater reduction still in the price of goods will result in placing many Canadian industries in an improved competitive position in the world trade. Of course the elimination of the sales tax would mean \$700 million dollars that would have to be supplied by the Bank of Canada. It may well be that the process would have to be gradual in order to avoid inflation. There might be some reason why instead of eliminating the sales tax, some other tax could be eliminated or reduced. For example almost the same result could be obtained by reducing the personal income tax on the lower incomes and increasing the amount of the exemption.

Might I make it clear at this point that we are not suggesting the elimination of all taxation. On the contrary we believe it would be well to tread very cautiously in this direction and establish this principle gradually. The reason we suggest the elimination of the sales tax or a reduction of the personal income tax on the lower incomes, is because these taxes have the greatest bearing on the standard of living of the people. The sales tax is reflected in the price of goods. It is a tax paid by everybody rich and poor alike, but it is a tax that bears more heavily on the poor than it does on the rich.

The elimination of the sales tax, would not only reduce the burden of taxation on the man least able to afford it, but it would also result in an immediate reduction in the cost of living.

Reduction of National Debt:

A second way in which the Canadian government can put into circulation debt free money issued at cost by the Bank of Canada is in the gradual repayment of the public debt.

Let us consider for a moment the question, where does the Canadian government now get its money to finance its operations? In his evidence before the Banking and Commerce Committee in 1939, Mr. Graham Towers, in answering a direction question, stated that there were three ways by which a government could obtain the money it required to finance its services. Said Mr. Towers:

A government can find money in three ways: by taxation, or they might find it by borrowing the savings of the people, or they might find it by action which is allied with an expansive monetary policy, that is borrowing which creates additional money in the process.

In his evidence before this committee a few weeks ago Mr. Towers indicated that the only occasion on which the Bank of Canada made a direct loan to the Canadian government was at the outbreak of World War II, when the gold reserves of the Bank of Canada were transferred to the Foreign Exchange Control Board. The explanation offered is that it was better for the government to borrow directly from the people in the first instance, and then from the chartered banks if additional funds were required. The latter is the type of borrowing that results in the creation of additional money.

We fail to see any necessity for the Canadian government borrowing from the chartered banks and taxing people to obtain the necessary money to pay interest on the loans obtained from the chartered banks, when the Bank of Canada already has all the machinery necessary to make available to the government at cost the funds that may be required by the government.

The method followed today to pay off the public debt is by means of taxation. If instead of using taxation to pay off some portion of public debt, we were to use interest free money issued by the Bank of Canada for that purpose, we would be accomplishing two things. First, we would be leaving in the hands of the people as purchasing power, the amount of money they are now paying in taxation to enable the government to pay interest on the debt, as

well as the principal when it comes due. This transaction simply amounts to taking from the people a certain sum of money with one hand and giving it back to them—or rather to another group as we shall see later—with the other hand. The net result is that the same amount of purchasing power is in circulation, but not necessarily with the same people.

The second benefit to be derived from our proposal however, is this. When the government borrowed money from the people, the amount so borrowed represented the savings of the people and amounted to a withdrawal from circulation of an equivalent amount of purchasing power. Repayment of any part of the government debt would therefore result in increased purchasing power put into circulation. Gradual repayment of the public debt with money issued at cost by the Bank of Canada would result in net interest savings to the government as well as an additional means of putting into circulation money issued at cost.

There is a wide difference of opinion however, on the value of the importance of a national debt. Some people abhor debt. They classify a national debt in the same position as private debt. They take the position that it is just as bad for the government to go into debt as it is for an individual. There is another group of people however, that see no harm in a national debt. On the contrary they see certain definite benefits and advantages in a national debt. Some of these economists, e.g. Stuart Chase and Professor Hansen of Harvard University, take the position that a national debt is essential in order to provide a safe source of investment for the savings of the people and for insurance companies and trust companies. It would appear from the evidence submitted to this committee a few weeks ago that Mr. Graham Towers also belongs to this school of thought.

In his book 'Fiscal Policy and Business Cycles', Professor Hansen in dealing with the question of public debt vs. private debt, devotes the whole of his chapter to reviewing and approving the principles enunciated by Professor Jorgen Petersen of the University of Aarhus, in Denmark. Professor Hansen, at page 142 of his book, quotes an article written in May 1937 in the 'Weltwirtschaftliches Archiv', by Professor Petersen as follows:

Borrowing, as the term is commonly used, has two characteristics without which one could not speak of a loan: (1) there must be a transfer of the disposal over funds from one economic unit to another; (2) the burden of the borrower is distributed over a period of time during which repayment of the loan takes place... When, however, the state borrows from its subjects, neither of the two characteristics is present. The state does not obtain the power of disposal over additional funds, for these funds were already within the realm of its power, and might, in fact, have been obtained through taxation.

Thus an internal loan raised by the state is not really a loan in the ordinary sense, since it possesses none of the essential characteristics of such a transaction. There is no transfer of funds from one economic unit to another, and no burden is shifted to future generations.

This statement raises the following questions:

1. If the state could obtain the moneys it borrows from taxation instead of by borrowing, why does it not do so?

2. Is it because the sums involved are so great that to obtain them from taxation would mean in effect confiscation of wealth?

3. What kind of taxation system would Canada have required during the war to raise the billions of dollars that we borrowed over and above the taxes we paid to help finance our war effort? Even Mr. Towers admits that additional taxation in Canada would have been detrimental to our economy.

4. The debt of the United States increased over 200 billion dollars since entering the last world war. How would it have been possible for the U.S. government to obtain these tremendous sums from additional taxation over and above the huge sums already obtained by this method?

5. What about the amount borrowed by Great Britain during the war and France, and all the other nations?

6. Would not the rate of taxation required have been such that it would have ruined the economy of these countries completely?

7. As to the statement that "no burden is shifted to future generations", what future generation has ever paid a national debt? Does posterity ever pay? Andrew Jackson did succeed in repaying the U.S. debt in 1835, but what has happened to the U.S. debt since?

I do not want to repeat what I have already said in this respect, but I am bound to say that I cannot follow the logic behind such statements as made by Professor Petersen and endorsed by Professor Hansen.

Professor Hansen refutes the merit of his own argument when he points out that the greatest part of the national debt has become centralized in a few hands. At page 179 of Professor Hansen's book "Fiscal Policy and Business Cycles", we find this statement:

In so far as the government can borrow from small savers, an increase in the public debt will not prove unfavorable to an equitable distribution of wealth. But if the growth in the public debt is very rapid, it will not be possible for relatively small savers to take any large proportion of the new securities issued. They will be absorbed by the rich and the well to do, and by large corporations. A rapid growth in the public debt is, therefore, likely to intensify the inequality in wealth distribution. This is the most fundamental objection that can be raised against financing mainly by borrowing.

again at page 153 we read:

An examination of the tax structure prevailing in the early half of the nineteenth century would indicate that, in all probability, the huge dead-weight debt served to add to the flow of individual savings. This is true for the reason that the taxes were heavily of the indirect type, which did not weigh severely on the incomes of the rich, while on the other hand the rich, for the most part, held the government bonds. Thus, funds were taken through taxes from the community as a whole and paid in the form of interest to the wealthy holders of bonds, whose incomes flowed largely into the stream of savings.

Stuart Chase points out the same thing. In his book, "Where is the Money Coming From", he writes at page 102:

On June 30, 1942, 38 per cent of it (the national debt) was held by commercial banks, 17 per cent by purchasers of savings bonds, 17 per cent by life insurance companies and mutual savings banks, 14 per cent by social security and other government trust funds, the balance by miscellaneous organizations.

Total it up and you will find that financial institutions held 55 per cent of the U.S. national debt as at June 30, 1942, as against 17 per cent for individuals, thus leaving 28 per cent for all other types of bondholders. There can be no doubt that with the terrific increase in borrowings during the war, the discrepancy is far greater today.

Let us take as an illustration the story of the victory bonds. People were urged to buy victory bonds during the war. They were told it was their

patriotic duty to do so because the government needed their money to help finance the war, buy guns and planes and ammunition, and so on. High pressure sales campaigns were organized to get the people to buy these bonds. The greatest achievement in this respect was in the organization of the salary deduction plan. But then there was also a bank loan plan. Many a campaign was "put over the top" by the simple expedient of having people borrow 200, 300 or 500 dollars from a bank and give the bank the victory bond as security. At the outset the bank would charge on the loan the same amount of interest that the individual was receiving on his victory bond. In due course the bank would notify the bondholder that henceforth the interest rate of his loan would be increased by 1 per cent! The borrower would immediately dispose of his bond to the bank, retire his loan, and the bank received the bond. Many of the victory bonds issued in this manner or to people on the salary deduction plan ultimately found their way into the hands of the financial institution, thus intensifying "the inequality in wealth distribution", to use professor Hansen's words again.

The worst feature of our national debt of course is the interest charge thereon. I have already pointed out that since Confederation Canada has paid \$8,045,608,148 in interest alone on the national debt and still owes \$11,185,000,000!

There are 3 kinds of public debt:

1. The dead-weight debt, for which the country derives no direct benefit; e.g., borrowings for relief, or for war.
2. The passive-debt, which results in development projects on which no direct money returns are received; e.g., monuments, parks, playgrounds, etc.
3. The active debt, incurred for the development of revenue producing projects; e.g., telephone systems, power developments, irrigation projects, etc.

Our whole concern in discussing the national debt is with the first two categories. The third class is in the nature of a self liquidating project.

Why should a sovereign country be required to pay interest on its national debt? Of course I realize that if the state is going to borrow from its people it should pay interest, but why should it borrow under those circumstances? Why should Canada have to borrow bank credit from the banks and pay interest on such loans when the banks received the authority to issue such bank credit from the government of the nation? Why should Canada have to pay interest on loans obtained from the Bank of Canada when the Bank of Canada is an institution set up by the Government of Canada to regulate and control the issue of money and credit?

Stuart Chase, at page 105 of his book "Where Is The Money Coming From" quotes the National Resources Planning Board as saying:

Should the day arrive when the carrying charge on the Federal debt becomes oppressive, serious thought should be given to the creation by our modern banking and treasury institutions of non-interest bearing debt.

On the same page Stuart Chase states:

If the government borrowed solely from its own central bank without interest, there need be no interest burden at all. There would be amortization of the principal, and the fundamental prohibition not to pump too many new dollars into the system would still stand.

Our debt must be paid. Our interest charges must be reduced. This can only be done by gradually replacing our interest bearing debt with money

obtained at cost from the Bank of Canada. The funds so obtained can be used to repay our debt gradually and thus maintain purchasing power in circulation.

Capital Expenditures:

The third way in which money issued at cost by the Bank of Canada can be put into circulation by the Canadian government is in expenditure for capital investments.

During the second world war a Post-war Reconstruction Committee was set up by the House of Commons to investigate ways and means of avoiding a depression when the war was over. The committee did a great amount of research, and presented reports from time to time to the House of Commons. In the interim report presented to parliament dated June the 23rd, 1943, the following paragraphs are of the utmost significance:

14. Canada abounds in natural resources, in all its provinces and in the Yukon and Northwest Territories. The proper utilization of our resources will provide both employment and opportunities for colonization and industrial development, through flood control, irrigation, reforestation, conservation of water, the exploration of mineral and oil deposits, the development of water power, and the provision of highway and railway transportation where required by settlers or by industry.

15. Your committee is strongly of opinion that every member of the armed forces and the merchant navy is entitled to be assured that parliament and government will be prepared to do what lies within their power to prevent any recurrence of mass unemployment in Canada. The actual definite steps that must be taken to prevent mass unemployment permanently are matters of controversy upon which your committee is not yet ready to make recommendations. We are convinced, however, that since human welfare is the supreme function of government, parliament and government must at all times be prepared to make every effort to maintain full employment.

17. When war is over, some other definite aim must take its place as a motivating cause of national economic activity. Thoughts of those who return to us from the field of battle and of the dependents of those who die, and of what they fought and died for, will supply the aim. Your committee is certain that the means of so doing will be found in the conservation and proper utilization of our natural resources, and in the decision that markets will be sought for our production by governmental intervention where necessary from time to time. In this respect we welcome the conclusion arising from the United Nations Food Conference that never again will food be destroyed simply because people have not enough money to buy it.

Let us read again the last sentence of recommendation No. 17:

Never again will food be destroyed simply because people have not the money to buy it.

With surpluses already existing in many commodities, we again hear talk of surplus production and unemployment, not only in Canada but also across the line in the United States. We again hear talk about restricting production, cutting down acreage under production, because of the so-called over-production.

It is high time to give serious thought, not only to putting the machinery to work to avoid the threatening depression, but also to the question of whether the money required to finance these projects is going to be borrowed from the chartered banks, or issued at cost by the Bank of Canada?

Subsidies

The fourth way in which new money can be put into circulation is in the payment of subsidies for the purpose of reducing consumer prices and preventing inflation.

The principle involved in the payment of subsidies has long been familiar to the people of Canada. In the past subventions have greatly assisted the coal industry. The gold mining industry is receiving similar aid today. During the war a variety of products such as milk were subsidized so that their cost to consumers remained at a level which made it possible for producers to meet their rising costs.

It might be said our recommendation is an extension of these payments, with the emphasis placed on the needs of the consumer. That is to say, the purchasing power should consist of new money issued by the Bank of Canada at cost and put into circulation by the Canadian government primarily for the benefit of consumers through the reduction of prices of goods.

The use of selective subsidies will have the two-fold effect, first of reducing the prices of goods to the great advantage mainly of families with low or fixed incomes; and, secondly, if applied to Canadian made goods of assuring more adequate distribution of our own Canadian production.

Consumer Dividends

The fifth way in which money issued at cost by the Bank of Canada can be put into circulation by the Canadian government is in the payment of consumer dividends.

It is a fact which must be recognized that "full" employment is no longer possible. The payment of consumer dividends must progressively replace wages and salaries of those who are too old to work, those who are unable to work because of disability and those who cannot otherwise get possession of purchasing power through work and wages.

This principle is also well established in the payment of family allowances, old age pensions and other social security payments. Our recommendation here again is simply an extension of the principle already recognized.

But again, there is this difference. Today the money used for the payment of social services comes from the pockets of taxpayers—or, if you wish, the consumer. This is merely a redistribution of purchasing power. It does not add one cent to the aggregate amount of purchasing power in circulation. We propose that money used to pay consumer dividends must be new money created by the Bank of Canada and used for the purpose mentioned in relation to new production. Any contributory scheme, or any payments made out of funds taxed from the people only serve to aggravate an already chronic shortage.

Inflation

The one objection that will be raised against our proposals is of course the old bogey of inflation. What is inflation?

Inflation is a condition created by the volume of purchasing power being in excess of the total normal prices of goods available for sale. This results in a rise in prices, which means that every dollar will buy less.

Deflation is a condition resulting from purchasing power being insufficient to buy the available goods on the market. This leads to goods piling up, production being restricted, unemployment increasing and a general condition of poverty amidst potential plenty. Its evil effects are in some respects worse than inflation.

The implementation of proposal No. 2 cannot possibly result in an inflationary condition. Proposal No. 2 consists merely in maintaining the present

volume of money in circulation and in making provision for any additional money that may be required to ensure the progressive development of the national economy. Increased production will require an increased supply of money. The implementation of proposal No. 2 will assure this supply of money.

Proposal No. 3 is designed to enable the government to supplement the money requirements of the country when necessary to balance consumption and production by the use of money issued at cost by the Bank of Canada.

If the amount of money put into circulation in this manner does not increase the normal prices of goods already produced, how can this be called inflation?

Furthermore, the expansion of credit or issue of money that will tend to increase the purchasing power of the people and at the same time result in a reduction of prices by reduced taxes cannot in any sense of the word be called inflation.

Money put into circulation cannot cause inflation so long as the total supply of money in circulation does not increase the total normal prices of goods available for sale. There are many famous cases of disastrous inflation to be found throughout history. The case of the German mark after the second world war is well-known. The case of the issue of the French assignats at the time of the French revolution is also a matter of common knowledge. The fundamental weakness in these two cases like in all cases of inflation is that there were insufficient goods available for distribution in relation to the amount of money tickets put into circulation. The amount of money in circulation does not necessarily create inflation. If the eight billion dollars of bank deposits we have today had been issued at the beginning of the century, then there would undoubtedly have been a terrific situation of inflation because our production system was not ready for it. Two conditions characterize a period of inflation: an increase in the amount of money in circulation followed by an increase in the level of prices. But while surpluses of wanted goods exist, inflation is impossible. During the war we certainly had a terrific increase in bank deposits, but there was no corresponding increase in the price level because of the price controls imposed by the government. As soon as these price controls were removed however, after the war was over, then the price level immediately began to rise and we had inflation.

Let us not forget either that this inflation took place right here in Canada and under the existing orthodox banking system.

Expanding Economy

There is one final point I wish to make. In an expanding economy such as ours it is constantly necessary to increase the amount of money in circulation if we are going to increase production and provide for the distribution of the increased amount of goods that our economy can provide. Should we not do so, deficiency in purchasing power is of course inevitable. This is deflation and deflation is in every respect just as bad as inflation. Professor Hansen points this out very clearly in his book "Fiscal Policy and Business Cycles" where he states at page 173:

To make the system of free enterprise workable, it is absolutely necessary to ensure a rising national income. Should the income remain stationary, rising per worker productivity would imply an ever-growing volume of unemployment. A static national income, with or without a rising public debt, would wreck the economic order.

Nowhere in our proposals do we recommend that the government should put into circulation more money than is adequate to finance the distribution and consumption of goods already available. The government has in the Bureau

of Statistics an agency that is well able to ascertain the physical requirements of the country and the physical development taking place in the country. In the Bank of Canada the government already has the necessary machinery, to implement immediately any change necessary to gear the money supply of the country to the productive capacity of the country. That is the effect of the proposals we advocate.

Use of Bank of Canada Notes

Some will object that the implementation of these proposals will result in the country being flooded with Bank of Canada bank notes. Let us examine the objection.

We have already pointed out that according to the Bank of Canada report for the year 1953, the total chartered bank reserves consisted of 888 million dollars. The *Canada Gazette* of February 6, 1954 contains a statement of the affairs of all the chartered banks of Canada as of December 31, 1953. Column 2 gives the total amount of subsidiary coin held by all the banks in the amount of \$18,433,000. Column 5 gives the amount of the Bank of Canada notes held by all the chartered banks. The figure is \$263,791,000. Both of these columns combined amount to \$282,224,000. This represents the currency held by the chartered banks. The balance of the cash reserves of the chartered banks is to be found in column 6, headed "Deposits with Bank of Canada." The total is \$623,885,459, nearly three times the amount of currency held. Now this \$600,000,000 on deposit represents a claim by the chartered banks against the Bank of Canada for Bank of Canada notes. Why do the chartered banks not ask for these notes? Simply because they are not needed by the general public and it is more convenient for the chartered banks to settle their inter-bank balances by giving each other cheques on their accounts with the Bank of Canada than it is to exchange bank notes, and provide all the security measures required in connection therewith.

The same procedure will be followed by an issue of bank credit by the Bank of Canada to the Canadian government. There will be no change whatsoever in the manner the Canadian government will deal with this bank credit. It will issue cheques against it as it is doing now. Some might even be cashed at the banks, in the same way they are cashed now. The chartered banks in due course will deposit these cheques in their accounts with the Bank of Canada. The net result is that the chartered banks will have larger accounts with the Bank of Canada, but the actual cash supply, or Bank of Canada notes in circulation is not increased. Should an increase be required at any time, the chartered banks may obtain the notes they require by issuing cheques on their account with the Bank of Canada, to the Bank of Canada, and the notes are paid for. The machinery for these transactions is already in operation; it is efficient; it is simple; consequently it should not be changed.

We must realize of course that we must always be on guard against inflation. Should inflation threaten it can be controlled by taxation and subsidies. That is why we do not propose the elimination of all taxation. Taxation may be found necessary to provide local areas with local benefits, the cost of which should not be borne by the people of the country as a whole. Taxation may also be found necessary to maintain a better distribution of wealth and to avoid concentration in the hands of a few. Taxation may also be necessary to control the amount of money in circulation. As and when a surplus amount of purchasing power is found to be in circulation—redundant purchasing power—then the taxation machinery should be used to withdraw from circulation such redundant purchasing power. Thus taxation can be used not only as an instrument of fiscal policy but also as an instrument of

monetary policy. By the same token the imposition of taxation can result in a decrease in purchasing power. Thus at all times will full and definite control be maintained over the amount of purchasing power in circulation, not by using the public debt as an instrument of national fiscal policy, as some economists advocate, but rather by using taxation as the main instrument of national fiscal policy. Taxation can be used not only as an instrument of fiscal policy but also as an instrument of monetary policy.

CONCLUSION

Employment

In concluding let me say a word about employment. Sufficient has been said about unemployment.

It has been estimated that with the tremendous advance of technological knowledge, particularly during and since the second world war, and with the current development of atomic power for peacetime purposes, it will be impossible to provide a full five day week-work for all the physically employable citizens of the country. It is fear of this that is causing organized labour even to resort to featherbedding and slow-down methods of production for the purpose of keeping their union members fully employed. Were we to eliminate the fear of unemployment among the ranks of labour, resulting from the introduction of still further labour saving devices and machinery, it would be possible to produce still more even today with the same amount of manpower, machinery and equipment.

The day is not too far away when we will have to choose between two alternatives: First, retain on a full five-day week half the number of labouring people necessary to produce all the goods required by the nation, and endeavour to use the other half in the development of non-productive projects; or, secondly, reduce the labour week to three or four days, without any reduction in pay and thus increase the number of people employed in the production of the maximum amount of goods.

The main objective of our Canadian economy should be to raise the standard of living of Canadians to the highest point possible through the full utilization of the manpower and natural resources of the country.

We must face it. This objective cannot be achieved under a banking system where all money is issued as an interest bearing debt, and where you are called upon to pay back more to the banking system than the banking system puts into circulation. This objective can not be achieved under a banking system that has as its main purpose the making of money—i.e., the making of profits—for the benefit of its shareholders.

This objective can only be achieved by the establishment of a banking system and the inauguration of banking policies that will provide a constant supply of money or purchasing power sufficient not only to produce all the goods that our vast resources of manpower and material wealth can make physically possible; but also sufficient to make possible the distribution of our entire national production or its equivalent.

This is the challenge facing us today. Three roads lie ahead—and we must choose one of them.

The first is to carry on with our banking system such as it exists today. This of course means accepting the necessary consequences—recurring depressions and unemployment. We have already been told in parliament by a minister of the Crown that under the present orthodox financial system it is impossible to provide for an increase in old age pensions (*Hansard*, 1954, p. 3302).

The second is, the road of nationalization. I do not propose to discuss this road at any length because nationalization or public ownership of the chartered banks would not necessarily solve our problem. Indeed such a course might even worsen it. What is required is a change of policy not a change of ownership of the banks because the chartered banks are already subject to controls under the Bank Act and the Bank of Canada Act.

Furthermore nationalization of the chartered banks would be subject to all the evils attendant upon the nationalization of any commercial enterprise. It is surrounded with dangers.

The only reason I raise this question of nationalization of the banks at all is because it is the only other concrete proposal advanced by a national group in this country to solve the problems of depressions and unemployment. This group is undoubtedly sincere but the only difficulty concerning this proposal is that it just will not work.

The third road before us is the implementation of the proposals we have submitted for your consideration. If there is any plan other than socialism or the one we propose to do away with depressions and unemployment, we have no knowledge of it. But if there is any other proposal, and after examination we find it capable of doing a better job than the proposals we have advanced, we will be delighted to support it.

I repeat, there are only three roads ahead of us: the status quo, socialism or that laid down in these proposals. It is for you to make the choice. The final responsibility is yours. I can only express the hope that in making your decision you will keep in mind the words of the Post War Reconstruction Committee.

Never again will food be destroyed simply because people have not enough money to buy it.

EXHIBIT "A"

1 Year	2 Capital	3 Rest or Res. Fund	4 Bk. notes in circulation	5 Specie and Dom'n Notes (Cash Reserve)	6 Deposit Liabilities	7 Ratio Can. Cash to Can. Dep.
1861.....	26,891,224		13,662,641	7,037,239	19,148,528	
1862.....	26,416,504		9,738,492	6,171,678	19,814,690	
1863.....	26,982,180		10,515,140	6,512,058	22,539,226	
1864.....	29,831,426		8,635,503	5,582,337	24,004,089	
1865.....	30,744,167		12,128,772	7,594,170	29,926,879	
1866.....	29,634,767		10,920,035	6,130,519	28,750,191	
1867.....	30,926,470		9,346,081	9,330,000	31,375,316	
1873.....	54,690,561		27,165,878	16,128,320	65,426,042	
1876.....	66,804,398		21,245,935	14,494,117	72,852,686	
1884.....	61,579,021	18,149,193	30,449,410		102,398,228	
1892.....	61,626,311	24,511,709	33,788,679	17,794,201	166,668,471	8.8
1902.....	69,869,670	40,212,943	55,412,598	35,478,598	390,370,493	7.9
1913.....	116,297,729	109,129,393	105,265,336	141,872,884	1,126,871,523	11.1
1920.....	123,617,120	128,756,690	228,800,379	367,165,054	2,438,079,792	9.9
1930.....	144,560,874	160,639,246	159,341,085	232,016,616	2,516,611,587	9.2
1936.....	145,500,000	133,000,000	119,507,306	240,596,447	2,614,895,597	10.0
1941.....	145,500,000	133,916,667	81,620,753	318,039,223	3,464,781,844	10.2
1946.....	145,500,000	144,666,667	23,172,717	686,368,427	6,771,555,153	11.2
1951.....	146,502,115	200,837,564	279,630	799,304,753	8,464,510,837	10.0
1952.....	152,500,000	206,400,000	10,000,000	888,000,000	9,123,000,000	10.2

EXHIBIT "B"

STATEMENT OF PROFITS AND DIVIDENDS
CHARTERED BANKS

Name of Bank	Net Profits	Percentage of Profits to Paid-up Capital	Rate of Dividend Percentage
	\$ cts.		
Bank of Montreal (Fiscal year ended October 31)—			
1932.....	4,663,100 00		11
1933.....	4,005,154 00		8½
1934.....	4,105,024 00		8
1935.....	4,007,302 00		8
1936.....	3,181,501 00		8
1937.....	3,408,328 00		8
1940.....	3,435,941 00		8
1941.....	3,437,026 00		8
1942.....	3,283,018 00		8-6
1943.....	3,302,834 00		6
1950.....	5,942,897 69	16-51	10
1951.....	5,355,373 66	14-88	12
1952.....	5,668,778 38	15-75	12½
1953.....	7,043,000 00	19-56	14
Bank of Nova Scotia (Fiscal year ended October 31)			
1932.....	2,303,434 00		15
1933.....	2,035,900 00		12½
1934.....	1,850,330 00		12
1935.....	1,834,174 00		12
1936.....	1,926,686 00		12
1937.....	1,982,140 00		12
1940.....	1,941,330 00		12
1941.....	1,935,602 00		12
1942.....	1,860,262 00		12-10
1943.....	1,717,961 00		10
1950.....	2,297,542 00	19-15	16
1951.....	2,428,256 14	16-40	16
1952.....	2,538,165 87	16-92	16
1953.....	3,011,000 00	20-08	18
Bank of Toronto (Fiscal year ended November 30)—			
1932.....	1,044,393 00		11
1933.....	1,037,922 00		10
1934.....	822,499 00		10
1935.....	806,391 00		10
1936.....	1,141,810 00		10
1937.....	1,156,372 00		10
1940.....	1,294,549 00		10
1941.....	1,371,556 00		10
1942.....	1,214,729 00		10
1943.....	1,079,807 00		10
1950.....	1,207,815 62	20-13	16
1951.....	1,116,234 35	18-60	16
1952.....	1,163,220 00	19-39	17
1953.....	1,303,000 00	21-72	17

STATEMENT OF PROFITS AND DIVIDENDS—*Continued*

Name of Bank	Net Profits	Percentage of Profits to Paid-up Capital	Rate of Dividend Percentage
	\$ cts.		
Banque Provinciale du Canada (Fiscal year ended November 30)—			
1932.....	454,659 00		8 $\frac{3}{4}$
1933.....	410,655 00		6 $\frac{1}{2}$
1934.....	417,366 00		6
1935.....	400,843 00		6
1936.....	402,678 00		6
1937.....	444,410 00		6
1940.....	436,684 00		6
1941.....	440,643 00		6
1942.....	467,794 00		6- 5
1943.....	455,760 00		5
1950.....	336,493 73	8.41	7
1951.....	306,024 53	7.65	7
1952.....	332,844 71	7.92	7
1953.....	426,000 00	8.52	7
Canadian Bank of Commerce (Fiscal year ended October 31)			
1932.....	4,279,424 00		11
1933.....	3,648,832 00		8 $\frac{1}{2}$
1934.....	3,413,654 00		8
1935.....	3,389,031 00		8
1936.....	2,909,124 00		8
1937.....	2,934,117 00		8
1940.....	3,006,035 00		8
1941.....	3,013,152 00		8
1942.....	2,936,053 00		8- 6
1943.....	2,777,019.00		6
1950.....	4,015,258 55	3.38	10
1951.....	4,023,145 46	3.41	10
1952.....	4,510,641 00	15.03	12
1953.....	5,789,000.00	19.30	12
Royal Bank of Canada (Fiscal year ended November 30)			
1932.....	4,861,849 00		11
1933.....	3,901,649 00		8 $\frac{1}{2}$
1934.....	4,398,217 00		8
1935.....	4,340,522 00		8
1936.....	3,504,241 00		8
1937.....	3,711,379 00		8
1940.....	3,526,894 00		8
1941.....	3,535,928 00		8
1942.....	3,390,123 00		8- 6
1943.....	3,426,289 00		6
1950.....	6,559,725 11	18.74	10
1951.....	6,306,114 86	18.02	12
1952.....	7,129,084 72	20.37	12 $\frac{1}{2}$
1953.....	8,635,000 00	24.67	14
Dominion Bank (Fiscal year ended October 31)			
1932.....	1,179,931 00		11
1933.....	1,139,202 00		10
1934.....	1,151,561 00		10
1935.....	1,130,052 00		10
1936.....	951,277 00		10
1937.....	976,838 00		10
1940.....	958,788 00		10
1941.....	939,322 00		10
1942.....	920,990 00		10- 8
1943.....	914,249 00		8

STATEMENT OF PROFITS AND DIVIDENDS—*Concluded*

Name of Bank	Net Profits	Percentage of Profits to Paid-up Capital	Rate of Dividend Percentage
	\$ cts.		
Dominion Bank (Fiscal year ended October 31)— <i>Concluded</i>			
1950.....	1,245,678 68	17.79	12
1951.....	1,169,064 00	16.70	12
1952.....	1,158,556 00	16.55	12
1953.....	1,394,000 00	19.91	13
Banque Canadienne Nationale (Fiscal year ended November 30)			
1932.....	972,075 00		10
1933.....	970,350 00		10
1934.....	935,823 00		9
1935.....	915,790 00		8
1936.....	727,935 00		8
1937.....	774,228 00		8
1940.....	812,588 00		8
1941.....	811,351 00		8
1942.....	776,815 00		8-6
1943.....	806,266 00		6
1950.....	665,638 61	9.51	8
1951.....	802,612 18	11.47	10
1952.....	847,051 58	12.10	10
1953.....	1,365,000 00	19.50	12
Imperial Bank of Canada (Fiscal year ended October 31)			
1932.....	1,205,335 00		11½
1933.....	1,204,039 00		10
1934.....	1,231,992 00		10
1935.....	1,208,079 00		10
1936.....	962,813 00		10
1937.....	967,977 00		10
1940.....	961,017 00		10
1941.....	872,190 00		10
1942.....	836,149 00		10-8
1943.....	836,934 00		8
1950.....	1,158,311 19	16.55	14
1951.....	1,236,400 25	17.66	14
1952.....	1,318,995 64	18.84	14
1953.....	1,402,000 00	20.03	15
Barclays Bank (Canada) (Fiscal year ended Sep- tember 30)			
1932.....	None reported		—
1933.....	" "		—
1934.....	" "		—
1935.....	" "		—
1936.....	" "		—
1937.....	" "		—
1940.....	" "		—
1941.....	" "		—
1942.....	" "		—
1943.....	" "		—
1950.....	12,160 57	.81	nil
1951.....	17,444 10	1.16	nil
1952.....	10,333 11	.69	nil
1953.....	18,000 00	.60	nil

The WITNESS: Mr. Chairman, if I may now refer back to page 85 of the submission, second paragraph. I might point out that the paragraph reads as follows: "It might be pointed out in passing that this provision would conflict with the Bank of Canada Act—it does conflict and I would like to explain the conflict in order to be clear. The provisions for the establishment of the gold standard impose an artificial restriction on the amount of money that could be put in circulation in the country. That is the conflict with the preamble of the Bank of Canada Act which is to regulate the credit and currency in the best interest of the economic life of the nation. You cannot carry out the purpose of the Bank of Canada Act as expressed in this preamble if the Act imposes an artificial restriction on the amount of currency which the Bank of Canada will be allowed to put into circulation.

The CHAIRMAN: Thank you very much, Mr. Maynard. Gentlemen, you will find the brief on the record, and there are some tables contained in the brief which are of interest. Mr. Maynard has had a rather full morning. May I suggest that we leave the questioning until we return at 3.30? I have on my list Mr. Macdonnell, Mr. Philpott, Mr. Stewart and Mr. Tucker, and that will give us a good start this afternoon.

Mr. FLEMING: I presume that Mr. Elderkin will examine these tables.

The CHAIRMAN: I think they are taken from *Hansard*.

The WITNESS: No, they are taken from the Canada Year Book.

The CHAIRMAN: Mr. Elderkin will examine them, Mr. Fleming.

Adjourned until 3.30, gentlemen.

APPENDIX "A"

(This appendix is comprised of the following documents, ordered reprinted due to typographical errors:

- 1. Exhibit No. 28, being Appendix "A" to Minutes of Proceedings and Evidence, No. 20, Thursday, April 1, 1954;*
- 2. Exhibits 29 and 30, being Appendix "A" to Minutes of Proceedings and Evidence, No. 21, Tuesday, April 6, 1954, and*
- 3. The document entitled "Proposed Amendments to Bill 338, An Act respecting Banks and Banking", being Appendix "B" to Minutes of Proceedings and Evidence, No. 21, Tuesday, April 6, 1954.)*

EXHIBIT No. 28

STATEMENT OF THE BANK PREMISES OF THE CHARTERED BANKS AND THE RELATION TO SHAREHOLDERS EQUITY
AS AT DECEMBER 31, 1944 TO 1953

(Amounts in thousands of dollars)

	1944		1945		1946		1947		1948	
	\$	%	\$	%	\$	%	\$	%	\$	%
Bank of Montreal.....	12,900	16.7	10,613	13.6	10,764	13.6	13,875	17.1	16,013	19.3
The Bank of Nova Scotia.....	6,981	18.7	7,354	19.6	7,324	19.5	7,928	20.9	10,070	26.3
The Bank of Toronto.....	2,786	14.3	3,191	16.1	3,510	17.3	4,141	19.9	5,061	24.0
The Provincial Bank of Canada.....	1,769	33.8	1,748	33.2	1,694	26.9	1,570	24.7	1,897	29.7
The Canadian Bank of Commerce.....	17,121	33.3	18,556	35.8	18,497	29.7	18,857	30.1	19,728	31.3
The Royal Bank of Canada.....	15,210	25.7	15,052	25.0	14,850	19.4	15,089	19.2	16,451	20.4
The Dominion Bank.....	4,887	32.4	4,577	30.2	4,764	27.4	5,525	31.3	5,835	32.3
Banque Canadienne Nationale.....	4,844	35.1	4,635	37.3	5,035	34.9	5,302	36.7	5,849	40.4
Imperial Bank of Canada.....	4,942	30.9	5,571	34.5	5,710	35.4	6,062	33.2	6,258	33.8
Barclays Bank (Canada).....	692	29.7	781	33.6	892	38.0	1,193	50.5	1,358	57.0
All banks.....	71,632	24.2	72,078	24.1	73,040	22.0	79,542	23.4	88,523	25.6

NOTE: (a) Bank premises include land, buildings, furniture and equipment owned by banks and the shares in and loans to controlled realty companies as shown by the monthly returns.

(b) Shareholders equity consists of paid-up capital, rest account and undivided profits at the fiscal year ends of the banks.

(c) The Mercantile Bank of Canada, which started business in December, 1953, is not included.

EXHIBIT No. 28—*Conc.*STATEMENT OF THE BANK PREMISES OF THE CHARTERED BANKS AND THE RELATION TO SHAREHOLDERS EQUITY
AS AT DECEMBER 31, 1944 TO 1953

(Amounts in thousands of dollars)

	1949		1950		1951		1952		1953	
	\$	%	\$	%	\$	%	\$	%	\$	%
Bank of Montreal.....	18,001	21.1	18,594	21.3	20,458	23.1	21,327	23.8	22,547	23.3
The Bank of Nova Scotia.....	15,149	39.0	20,193	51.5	22,734	47.3	23,126	47.4	13,563	27.6
The Bank of Toronto.....	5,633	26.3	6,072	28.0	8,078	37.0	8,904	40.4	9,194	41.2
The Provincial Bank of Canada.....	2,273	35.0	2,592	39.5	3,095	47.0	3,394	49.0	3,892	47.6
The Canadian Bank of Commerce.....	20,661	32.4	22,123	34.2	25,991	39.5	27,618	41.4	32,053	46.6
The Royal Bank of Canada.....	18,759	22.6	20,741	24.1	24,017	27.3	23,550	25.9	23,757	22.3
The Dominion Bank.....	6,218	33.9	7,000	37.8	7,659	40.7	7,864	41.0	8,217	41.8
Banque Canadienne Nationale.....	6,658	45.8	6,757	46.1	6,417	43.5	6,821	45.8	7,483	48.5
Imperial Bank of Canada.....	6,618	35.2	7,147	37.7	8,130	42.6	8,398	43.7	8,865	45.3
Barclays Bank (Canada).....	1,339	42.5	1,291	40.8	1,260	39.6	1,229	38.5	1,186	19.1
All banks.....	101,309	28.7	112,510	31.2	127,839	34.1	132,231	34.7	130,737	31.7

NOTE: (a) Bank premises include land, buildings, furniture and equipment owned by banks and the shares in and loans to controlled realty companies as shown by the monthly returns.

(b) Shareholders equity consists of paid-up capital, rest account and undivided profits at the fiscal year ends of the banks.

(c) The Mercantile Bank of Canada, which started business in December, 1953, is not included.

EXHIBIT No. 29

THE CHARTERED BANKS OF CANADA
AVERAGE COMBINED RATE OF INTEREST AND DISCOUNT
ON LOANS OUTSTANDING IN CANADA, 1934 TO 1953

<i>Annual Average (a)</i>		<i>At December 31 (b)</i>	
	<i>%</i>		<i>%</i>
1934	5.78	1944	4.14
1935	5.35	1945	3.84
1936	4.99	1946	4.22
1937	4.96	1947	4.33
1938	4.83	1948	4.35
1939	4.65	1949	4.32
1940	4.56	1950	4.39
1941	4.50	1951	4.51
1942	4.40	1952	4.58
1943	4.35	1953	4.70

Notes: (a) Percentages quoted for 1934 to 1943 are based on quarterly or half yearly returns made by the banks. They represent simple, not weighted, averages and are, to a small degree, estimated; (b) Percentages quoted for 1944 to 1953 are based on annual returns made by the banks. They represent weighted averages.

EXHIBIT No. 30

THE CHARTERED BANKS OF CANADA
 PARTICULARS OF INCREASES IN REST OR RESERVE FUND AND
 PAID-UP CAPITAL DURING THE YEARS 1944 TO 1953 AND
 TOTALS FOR PRIOR YEARS

(Amounts in thousands of dollars)

	REST OR RESERVE FUND				PAID-UP CAPITAL
	From Profit and Loss Account	From Inner Reserves	From issue of Capital Stock	Total	
Bank of Montreal	16,000	5,000	....	21,000	....
The Bank of Nova Scotia..	3,000	....	6,000	9,000	3,000 (a)
The Bank of Toronto	4,000	....	....	4,000	....
The Provincial Bank of Canada....	550	1,000	450	2,000	1,000 (b)
The Canadian Bank of Commerce.	8,000	10,000	....	18,000	....
The Royal Bank of Canada ...	23,000	27,000	....	50,000	....
The Dominion Bank.....	3,000	2,000	....	5,000	....
Banque Canadienne Nationale ...	1,000	2,000	....	3,000	....
Imperial Bank of Canada ...	2,000	2,000	....	4,000	....
Barclays Bank (Canada) ...	....	....	2,250	2,250	1,500 (c)
The Mercantile Bank of Canada ...	....	....	400	400	1,500 (d)
<hr/>					
All banks, 1944 - 1953 .	60,550	49,000	9,100	118,650	7,000
All banks, Prior years .	58,460	-29,500	107,790	136,750	145,500
<hr/>					
Totals	119,010	19,500	116,890	255,400	152,500
<hr/>					

NOTE: (a) Issue of 300,000 shares; (b) Issue of 100,000 shares; (c) Issue of 150,000 shares; (d) Issue of 150,000 shares.

PROPOSED AMENDMENTS TO BILL 338
AN ACT RESPECTING BANKS AND BANKING

Clause 2, Page 1

- By replacing, in line 14, "limiting" with "restricting".
- By deleting lines 25 to 28 inclusive.

Clause 2, Page 2

- By replacing, in line 40, "or" with "and".

Clause 2, Page 3

- By replacing, in line 4, "limiting" with "restricting".

Clause 19, Page 10

- By replacing lines 25 and 26 with "person, or to any shareholders; and".
- By replacing, in line 43, "section" with "Act".

Clause 23, Page 12

- By inserting, after "and" in line 10, "as a result thereof".
- By deleting, in line 11, "then".

Clause 30, Page 13

- By inserting, after "and" in line 18, "other".

Clause 36, Page 15

- By inserting, after "shareholders" in line 19, "according to the books of the bank".

Clause 41, Page 16

- By deleting, in line 43, "in value".

Clause 41, Page 17

- By replacing, in line 10, "amount of stock" with "number of shares".
- By replacing, in line 11, "shareholders" with "shares held by each shareholder".
- By deleting line 13.
- By relettering, in line 14, (d) as (c).
- By deleting lines 15 and 16.
- By relettering, in line 17, (f) as (d) and, in line 18, (g) as (e).

Clause 48, Page 19

- By replacing, in line 5, "records" with "books".

Clause 49, Page 19

- By replacing, in line 43, "authorized" with "made or recorded".

Clause 51, Page 20

- By deleting, in line 29, "as provided by this Act".

Clause 58, Page 24

- By deleting, in line 20, "in his discretion".

Clause 61, Page 26

- By deleting, in line 12, "from time to time".
- By inserting, after "shall" in line 30, "as occasion requires".
- By deleting, from lines 30 and 31, "from time to time".

Clause 61, Page 27

- By deleting, in line 4, "during their tenure of office".

Clause 62, Page 28

- By inserting, in line 11 after "Parliament", "within fifteen days after the making of the order or, if Parliament is not then in session,".

Clause 70, Page 31

- By inserting, after "profits" in line 28, "exceeding the rate of eight per cent per annum" and deleting the said words from line 29.
- By inserting, after "for" in line 33, "ascertained and estimated".

Clause 72, Page 33

By deleting, in lines 10 and 11, "from time to time".

Clause 74, Page 33

By replacing, in line 37, the second "or" with "and".

Clause 75, Page 35

By replacing, in lines 3 and 7, "secured" with "guaranteed".

By replacing lines 25 and 26 with "when a loan or advance to himself or a firm of which he is a member or a corporation of which he is a director is under consideration,".

Clause 81, Page 38

By replacing lines 8 to 11 inclusive with the following: "(a) in the case of property acquired or held for its own use, from the day on which it ceases to be required for its own use, as determined by the directors, and

(b) in the case of other property, from the day on which it acquired the property, and forthwith after the expiry of that".

Clause 82, Page 38

By replacing line 35 with the following: "(a) hydrocarbons in, under or upon the ground, in".

Clause 82, Page 39

By inserting, after "officers" in line 21, a comma and "employees".

By inserting, after "to" in line 28, "do all or any of the following, namely,".

Clause 82, Page 40

By replacing subclause (5) with the following: "(5) The rights and powers of the bank do not have priority over an interest or right acquired in, on or in respect of the property covered by security given under this section unless, prior to

(a) the registration of such interest or right, or

(b) the registration or filing of the deed or other instrument evidencing such interest or right, or of a caution, caveat or memorial in respect thereof,

there has been registered or filed in the proper land registry or land titles office or office in which are recorded the rights, licences or permits referred to in this section,

(c) an original of the instrument giving the security,

(d) a copy of the instrument giving the security, certified by an officer or employee of the bank to be a true copy, or

(e) a caution, caveat or memorial in respect of the rights of the bank; and every registrar or officer in charge of such proper land registry or land titles or other office to whom a document mentioned in paragraph (c), (d) or (e) is tendered, shall register or file the same according to the ordinary procedure for registering or filing within such office documents that evidence liens or charges against, or cautions, caveats or memorials in respect of claims to interests in or rights in respect of any such property and subject to payment of the like fees; but this subsection does not apply if the provincial law does not permit such registration or filing of the tendered document."

By replacing subclause (7) with the following: "(7) Notwithstanding anything in this Act, where the bank holds any security whatever covering hydrocarbons, it may take in lieu of such security, to the extent of the quantity covered by the security taken, any security covering or entitling it to the delivery of the same hydrocarbons or hydrocarbons of the same or a similar grade or kind."

Clause 84, Page 41

By replacing, in line 14, "or" with "and".

Clause 85, Page 41

By deleting, in lines 36 and 37, "making the advances".

Clause 88, Page 43

By inserting, after "manufactured" in line 3, "or produced".

By inserting, after "or" in line 18, "to".

By inserting, after "by" in line 22, "any".

By deleting, in line 46, "such".

By inserting, after "by" in line 47, "any".

Clause 88, Page 44

By inserting, before "statutory" in line 6, "any".

By inserting, after "officers" in line 50, a comma and "employees".

Clause 88, Page 47

By inserting, after "by" in line 29, "whom".

Clause 88, Page 48

By replacing, in line 6, "territory" with "any territory now forming part".

Clause 89, Page 49

By replacing subclause (2) with the following: "(2) Where security has been given to the bank under paragraph (g) of subsection (1) of section 88 upon property that is or has become affixed to real or immovable property, the rights and powers of the bank do not have priority over an interest or right acquired in, on or in respect of the real or immovable property after such property has become affixed thereto unless, prior to

(a) the registration of such interest or right, or

(b) the registration or filing of the deed or other instrument evidencing such interest or right, or of a caution, caveat or memorial in respect thereof,

there has been registered or filed in the proper land registry or land titles office,

(c) an original of the document giving the security,

(d) a copy of the document giving the security, certified by an officer or employee of the bank to be a true copy, or

(e) a caution, caveat or memorial in respect of the rights of the bank; and every registrar or officer in charge of such proper land registry or land titles office to whom a document mentioned in paragraph (c), (d) or (e) is tendered, shall register or file the same according to the ordinary procedure for registering or filing within such office documents that evidence liens or charges against, or cautions, caveats or memorials in respect of claims to interests in or rights in respect of real or immovable property and subject to payment of the like fees; but this subsection does not apply if the provincial law does not permit such registration or filing of the tendered document."

Clause 90, Page 52

By inserting, after "security" in line 29, "whatever".

By replacing, in line 30, "the" with "such".

Clause 94, Page 54

By inserting, after "branch" in line 1, "of the bank".

By inserting, before "was" in line 26, "or instrument".

Clause 99, Page 57

By replacing, in lines 8 and 9, "allotment" with "offer".

Clause 103, Page 59

By inserting, after "and" in line 34, "to the".

Clause 103, Page 60

By inserting, after "branch" in line 8, and again in line 9, "or corporation".

By deleting, in line 12, "in his discretion".

Clause 110, Page 61

By inserting, after "branch" in line 26, "of the bank".

Clause 116, Page 63

By inserting, after "shareholders" in line 27, "according to its books".

Clause 117, Page 63

By deleting, in line 44, "from time to time".

Clause 131, Page 67

By deleting, in line 20, "from time to time".

Clause 132, Page 67

By replacing lines 23 and 24 with the following: "shall pay to the Minister on demand and in any event before the final winding-up thereof, any amount that is payable by the".

Clause 137, Page 70

By replacing line 28 with "is guilty of an offence against this Act, unless under the by-laws of the bank it is unnecessary that transfers of shares of its capital stock be made in the books of the bank".

Clause 148, Page 73

By replacing, in line 1, "default in payment of" with "failure to pay".

Clause 150, Page 73

By replacing, in line 24, "not exceeding" with "of".

By replacing line 29 with the following: "or any firm of which he is a member or any corporation of which he is a director."

Clause 152, Page 74

By replacing lines 14 and 15 with the following: "transmitted by post, the date appearing by the stamp or mark of the post office in Canada upon the envelope or wrapper enclosing the" and by deleting line 18.

Clauses 135 to 156

By renumbering these clauses as follows:

135 as 156

136 as 135, retaining the heading "Commencement of Business".

137 as 136, retaining the heading "Sale and Transfer of Shares".

138 as 141, retaining the heading "Issue and Circulation of Notes".

139 as 142

140 as 143

141 as 137, retaining the heading "Annual Statement".

142 as 138, retaining the heading "Auditor".

143 as 139, retaining the heading "Inspection."

144 as 140, retaining the heading "Cash Reserves".

145 as 149

146 as 148

147 as 146; the heading "Warehouse Receipts, Bills of Lading and Other Security" now appearing over 145 to be inserted over this clause.

148 as 147

149 as 145

150 as 144, retaining the heading "Prohibited Business".

151 as 150

152 as 151, retaining the heading "Returns".

153 as 152

154 as 153, retaining the heading "Suspension of Payment".

155 as 154

156 as 155, retaining the heading "Undue Preference to the Bank's Creditors".

Schedule M, Page 86

By deleting, in Asset item 1, "subsidiary".

By deleting, in Asset item 2, "subsidiary".

By inserting, after "Mortgages" in Asset item 15, "and hypothecs".

Schedule N, Page 88

By deleting, in Asset item 1, "subsidiary".

By inserting, after "Mortgages" in Asset item 9, "and hypothecs".

Schedule P, Page 89

By replacing, in Part I, the names of banks indented under "1. Bank of Montreal" with the following:

- "(a) The Montreal Bank
- (b) The Molsons Bank
- (c) The Merchants Bank of Canada
- (d) The Merchants Bank (Quebec charter)
- (e) The Bank of British North America
- (f) The Peoples Bank of New Brunswick
- (g) The People's Bank of Halifax
- (h) The Exchange Bank of Yarmouth
- (i) Commercial Bank of Canada
- (j) The Commercial Bank of the Midland District
- (k) Bank of the People, Toronto"

Schedule P, Page 90

By replacing, in Part I, the names of banks indented under "6. The Royal Bank of Canada" with the following:

- "(a) Union Bank of Canada
- (b) Union Bank of Lower Canada
- (c) The Northern Crown Bank
- (d) The Quebec Bank
- (e) The Traders Bank of Canada
- (f) United Empire Bank
- (g) Union Bank of Halifax
- (h) The Crown Bank of Canada
- (i) The Northern Bank
- (j) Commercial Bank of Windsor
- (k) Merchants Bank of Halifax
- "l) The Merchants Bank (Nova Scotia charter)

APPENDIX “B”

EXHIBIT No. 33

THE CHARTERED BANKS OF CANADA RATES OF LOSS EXPERIENCE ON SECURITIES, LOANS AND OTHER INVESTMENTS FOR THE FIFTEEN YEAR PERIODS ENDED IN EACH OF THE YEARS 1944 TO 1953

<i>Fifteen Year Periods</i>	<i>Government of Canada Securities</i>	<i>Provincial Securities</i>	<i>Loans and Other Investments</i>	<i>All Foregoing Assets</i>
	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>
1930-1944	·01	·11	·77	·45
1931-1945	·01	·09	·70	·40
1932-1946	·01	·06	·53	·29
1933-1947	·xx	·09	·40	·22
1934-1948	·xx	·11	·31	·17
1935-1949	·xx	·09	·24	·13
1936-1950	·05	·08	·17	·11
1937-1951	·15	·17	·17	·18
1938-1952	·23	·14	·16	·18
1939-1953	·17	·11	·12	·14

NOTE—Loss experience is the average annual amount required for losses or specific provision for losses on loans, investments and other assets, less recoveries.

·xx—Rate less than ·005%.

Canada. Parliament.
Standing Committee on, 1954

HOUSE OF COMMONS

First Session—Twenty-second Parliament, 1954

HC 13
- B11
(STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: DAVID A. CROLL, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 24

Decennial Revision of the Bank Act

TUESDAY, APRIL 27, 1954

(Afternoon Sitting)

THURSDAY, APRIL 29, 1954

WITNESS:

The Honourable Lucien Maynard, Q.C., Attorney General of Alberta.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1954.



NOTICE OF MOTION

TUESDAY, April 6, 1954.

Mr. Macnaughton—On the clause by clause consideration of Bill 338, An Act respecting Banks and Banking—That Clause 21 of Bill No. 338 be amended by adding thereto the following new subclause (4):

(4) *A person is not eligible to be elected or appointed a director after the first day of July, 1959, if he has reached the age of seventy-five years.*

MINUTES OF PROCEEDINGS

TUESDAY, April 27, 1954.

AFTERNOON SITTING.

The Standing Committee on Banking and Commerce met at 3.30 o'clock p.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Ashbourne, Balcom, Benidickson, Cameron (*Nanaimo*), Cannon, Crestohl, Croll, Fleming, Fraser (*Peterborough*), Hellyer, Huffman, Hunter, Johnston, (*Bow River*), Low, Macdonnell, Matheson, McMillan, Michener, Noseworthy, Philpott, Pouliot, Quelch, Rouleau, Stewart (*Winnipeg North*), Tucker, Weaver and Wood.

In attendance: The Honourable Lucien Maynard, Q.C., Attorney General of Alberta; Mr. C. F. Elderkin, Inspector General of Banks; Mr. G. K. Bouey, Assistant Chief, Research Department, Bank of Canada; Mr. T. H. Atkinson, President of the Canadian Bankers' Association and Vice-President and General Manager of the Royal Bank of Canada; Mr. Arthur C. Jensen, General Manager of the Bank of Montreal; Mr. C. S. Frost, Vice-President and General Manager of the Bank of Nova Scotia; Mr. William Kerr, General Manager of the Bank of Toronto; Mr. Neil J. McKinnon, General Manager of The Canadian Bank of Commerce; Mr. F. N. Boyer, Vice-President and General Manager of the Provincial Bank of Canada; Mr. A. C. Ashforth, Vice-President and General Manager of the Dominion Bank; Mr. John S. Proctor, General Manager of the Imperial Bank of Canada; Mr. M. Visser, General Manager of the Mercantile Bank of Canada; Mr. W. T. G. Hackett, Assistant General Manager of The Bank of Montreal; Mr. J. A. Fiott, Assistant to the General Manager of the Bank of Nova Scotia; Mr. C. B. Neapole, Assistant General Manager of the Royal Bank of Canada; Mr. J. D. Gibson, Assistant General Manager of The Bank of Nova Scotia; Mr. A. T. Lambert, Assistant General Manager of the Bank of Toronto; Mr. Bernard Normandin, Assistant General Manager of The Provincial Bank of Canada; Mr. F. A. Dulude, Assistant General Manager of the Banque Canadienne Nationale.

The Committee resumed consideration of Bill 297, An Act to amend the Bank of Canada Act, and Bill 338, An Act respecting Banks and Banking.

The examination of Mr. Maynard on his submission presented to the Committee at the morning sitting was commenced (*See Minutes of Proceedings and Evidence No. 23 this date*).

At 5.30 o'clock p.m., the examination of the witness still continuing, the Committee adjourned to meet again at 11.00 o'clock a.m., Thursday, April 29.

R. J. GRATRIX,
Clerk of the Committee.

THURSDAY, April 29, 1954.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Applewhaite, Balcom, Benidickson, Boucher (*Restigouche-Madawaska*), Cameron (*Nanaimo*), Crestohl, Fleming, Follwell, Fraser (*Peterborough*), Hellyer, Henderson, Huffman, Hunter, Johnston (*Bow River*), Low, Macdonnell, Macnaughton, McMillan, Noseworthy, Philpott, Quelch, Robichaud, Stewart (*Winnipeg North*), Tucker, Weaver and Wood.

In attendance: The Honourable Lucien Maynard, Q.C., Attorney-General of Alberta; Mr. C. F. Elderkin, Inspector General of Banks; Mr. G. K. Bouey, Assistant Chief, Research Department, Bank of Canada; Mr. T. H. Atkinson, President of the Canadian Bankers Association and Vice-President and General Manager of the Royal Bank of Canada; Mr. Arthur C. Jensen, General Manager of the Bank of Montreal; Mr. William Kerr, General Manager of the Bank of Toronto; Mr. H. T. Thomson, Assistant General Manager of the Imperial Bank of Canada; Mr. W. T. G. Hackett, Assistant General Manager of the Bank of Montreal; Mr. J. A. Fiott, Assistant to the General Manager of The Bank of Nova Scotia; Mr. C. B. Neapole, Assistant General Manager of The Royal Bank of Canada; Mr. J. D. Gibson, Assistant General Manager of The Bank of Nova Scotia.

The Committee resumed consideration of Bill No. 297, An Act to amend the Bank of Canada Act, and Bill No. 38, An Act respecting Banks and Banking.

The Chairman presented the Fourth Report of the Subcommittee on Agenda with respect to the hearing of witnesses and the placing on record of briefs filed with the Committee.

On motion of Mr. Philpott,

Resolved,—That the Fourth Report of the Subcommittee on Agenda be adopted. (*See evidence*)

The examination of Mr. Maynard on his submission presented to the Committee at the morning sitting on Tuesday, April 27, 1954, was continued. (*See Minutes of Proceedings and Evidence No. 23 of Tuesday, April 27, 1954*).

At 1.05 o'clock p.m., the examination of the witness still continuing, the Committee adjourned to meet again at 3.30 o'clock p.m. this day.

AFTERNOON SITTING

The Committee resumed at 3.30 o'clock p.m. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Balcom, Benidickson, Boucher (*Restigouche-Madawaska*), Cameron (*Nanaimo*), Fleming, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Fulton, Hellyer, Henderson, Huffman, Hunter, Johnston (*Bow River*), Low, Macdonnell, Macnaughton, McMillan, Mitchell (*London*), Philpott, Quelch, Stewart (*Winnipeg North*), Tucker, Weaver and Wood.

In attendance: Same as at the morning sitting, and Mr. K. R. MacGregor, Superintendent of Insurance, Ottawa.

The examination of Mr. Maynard was continued.

At 6.05 o'clock p.m., the examination of the witness still continuing, the Committee adjourned to meet again at 8.00 o'clock p.m. this day.

EVENING SITTING

The Committee resumed at 8.00 o'clock p.m. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Balcom, Bennett (*Grey North*), Cameron (*Nanaimo*), Fleming, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Fulton, Henderson, Huffman, Johnston (*Bow River*), Low, Macdonnell, Macnaughton, Matheson, McMillan, Mitchell (*London*), Pouliot, Robichaud, Stewart (*Winnipeg North*), Tucker, Weaver and Wood.

In attendance: The Honourable Lucien Maynard, Q.C., Attorney-General of Alberta; Mr. C. F. Elderkin, Inspector General of Banks; Mr. G. K. Bouey, Assistant Chief Research Department, Bank of Canada; Mr. T. H. Atkinson, President of the Canadian Bankers' Association and Vice-President and General Manager of the Royal Bank of Canada; Mr. William Kerr, General Manager of the Bank of Toronto; Mr. H. T. Thomson, Assistant General Manager of the Imperial Bank of Canada; Mr. W. T. G. Hackett, Assistant General Manager of the Bank of Montreal; Mr. J. A. Fiott, Assistant to the General Manager of the Bank of Nova Scotia; Mr. C. B. Neapole, Assistant General Manager of the Royal Bank of Canada.

The examination of Mr. Maynard was continued.

At 9.45 o'clock p.m., the examination of the witness having been completed, he was retired, and the Committee adjourned to meet again at 11.00 o'clock a.m., Tuesday, May 4.

R. J. GRATRIX,
Clerk of the Committee.

EVIDENCE

AFTERNOON SESSION

APRIL 27, 1954

3:30 p.m.

The CHAIRMAN: Gentlemen, I see a quorum.

Hon. Lucien Maynard, Q.C., Attorney-General of the Province of Alberta, recalled:

The CHAIRMAN: Mr. Macdonnell.

By Mr. Macdonnell:

Q. Mr. Maynard, in view of what you said this morning about the virtual impossibility of governments repaying debt—you made qualifications, I know—what is the situation with regard to the Alberta public debt at the moment?—A. The position in Alberta at the present time is that we still have a debt on the books but our assets or our reserves, if you wish, exceed the amount of our debt.

Q. So really you have no debt; you are in the convenient position of being, in fact, able to repay it?—A. That is correct.

Mr. FRASER (*Peterborough*): You have struck oil.

By Mr. Macdonnell:

Q. I will not pursue that. You are familiar with the fact that the federal debt of Canada has been reduced by a couple of billion dollars in the last year also?—A. That may be correct.

Q. And while we are talking about this question of debt and the impossibility of repaying, I should like to quote from page 32 of your brief. I take it that you had in mind there not merely the debt of Canadians through their government but individual Canadians too? I read as follows:

The main disability or weakness of the Canadian banking system is that it results in the accumulation of an ever increasing burden of debt on the Canadian people that can never be paid.

I take it that there are two kinds of debt. I have spoken to you about public debt. Is that intended also to refer to private debt?—A. It is intended to refer to the aggregate amount of debt, be it public, corporate, or private.

Q. Let us turn to private debt. Would you agree that it is characteristic of an expanding economy that the amount of debt—particularly of corporations that are expanding and building up the country—that as the community prospers, the debt would be likely to increase naturally?—A. Under the present banking set-up, yes.

Q. And would you disagree with me if I should say that in the case of a corporate enterprise of any kind, be it a farm, or a corporation, or anything you like, that if they have reasonably prosperous years and if they succeed in their business that those individual debts will inevitably or almost inevitably be repaid?—A. No, Mr. Macdonnell.

Q. You would not agree with that?—A. No and for this reason: Some people will be able to repay their debts not only at the expense of others because the total aggregate of debt cannot be paid.

Q. I shall not pursue that beyond saying that I disagree, and say that you have not said anything to establish that. Do you think it is a bad thing if one corporation which has borrowed \$1 million and succeeded in paying it off—do you think it is a bad thing if during that time another corporation which is developing the country has, let us say, borrowed \$2 million with the result that there is an expansion or a larger amount of debt? And if the second corporation is prospering and is in a way to repay, how do you then make the statement that the debt will never be repaid? I thought at first you were only referring to governments and that is why I asked you first of all about governments and you answered it. And I think you will agree with the figures which I gave earlier which show that some governments can repay and it is not inherently impossible for any government to repay. But when you come to private individuals, do you still take the position that private debts inherently cannot be paid?—A. I should like to make this statement as strongly and as clearly as I can that the aggregate amount of debt, whether it be private, corporate, or public debt, cannot be paid. I made the statement in the submission that some community, province or country can pay off their debts only at the expense of others, and that some individuals can pay off their debts only at the expense of others, and some corporations can pay off their debts only at the expense of others.

Q. I shall not pursue that further except to say that I wholly disagree with you, and it seems to me that you have not given us anything on which to found that statement. Mr. Maynard, this morning you referred briefly to Stephen Leacock. But the procedure this morning did not involve reading the whole statement and as everybody here may not have been able to read Stephen Leacock, perhaps I might have an opportunity to read it now.

The CHAIRMAN: Give us the page?

By Mr. Macdonnell:

Q. Page 27, and it reads as follows:

In the article referred to Stephen Leacock deals with the question, where is the money coming from after the war, to put two million Canadians to work when the war is over? In order to answer the question, Leacock gives an illustration in the form of a parable:

Four businessmen were stranded, shipwrecked and penniless, upon an island in the South Seas. It was a beautiful island. Breadfruit grew on every tree, coconuts dangled at the tops of palms, while beds of oysters lay near the shore.

But for the businessmen it was useless. They had no "funds" to develop the island; with an advance of funds they could have gathered breadfruit and made bread. But without funds! Why, they couldn't! They must stay hungry.

'Don't you think', said the weakest among them—a frail man (he had never been able to raise more than a million dollars; he'd no strength)—'Don't you think', he said to the biggest man, 'you could climb that palm tree and throw down coconuts?' . . . 'And who'll underwrite me?' asked the other.

There it was! They were blocked and helpless; couldn't even get an advance to wade into the sea for oysters.

So they sat there on the rocks—starving, dejected, their hair growing long. They couldn't even shave; there was no barber union.

On the fourth day the frail man, who was obviously sinking, said:

'If I die I want you to bury me over there on that little hill overlooking the sea.'

'We can't bury you, Eddie', they said. 'We've no burial fund.'

They fell asleep on the sands. But the next morning when they woke up, an Angel was standing beside them. They knew he was an Angel although he wore a morning coat and a top hat, and had grey striped trousers with spats above his boots.

'Are you an Angel?' they asked.

'Pretty much', he answered. 'That is to say, I am director of the Bank of England, but for you just now it's almost the same thing.'

'Funds, funds!' they exclaimed. 'Can you advance us funds?'

'Certainly', said the Angel. 'I came for that. I think I see a fountain pen in your waistcoat pocket there. Thank you . . . and that ten-cent scribbler . . . much obliged. Now then up you get! Light a fire, go and collect those oysters, pick some breadfruit, chase the wild goat and I'll arrange an advance of funds while you're doing it.'

As they sat around their fire at supper the Angel explained it all out of the scribbler.

'I have capitalized your island at \$2 million (that's half a million each) and I have opened a current drawing account for each of you of \$100,000, with loans as required . . .'

Now it did not seem to me, as I read this material, that there was anything in it to warrant the idea that Mr. Leacock was a proponent of the theories put forward by Mr. Maynard. But I thought I had better be very sure about it so I looked up the article and read from the file of *Maclean's* magazine for May 1, 1943. But I can find nothing there to support Mr. Maynard's views. It is true that Mr. Leacock gave some criticism of free enterprise which we all do at times and said:

We should let private industry have a chance, as big a chance as ever. Coax it along with bounties and opportunities, and see how far north it will go. It may get even to that coal on Baffin Island. But we need with it, beside it and overlapping it, a vast government industry that picks up the slack chain of unemployment, and runs all the harder whenever the profits system gets out of gear.

If that advocates anything, it would seem to me to come nearer to our socialist friends than to our social credit friends. But at any rate all it advocates is that the government should get busy in cases of need, with which we all agree. I thought I had better bring that to the attention of the committee.

I have read this article and I have not found anything in support of Mr. Maynard except the reference to fountain pen money which is just part of Leacock's joking and we all know enough about Leacock to know what he is like.

Now I want to ask one further question of Mr. Maynard. I am a little puzzled as to the circumstances which are going to arise if the proposals on page 86 are carried out. As I understand it Mr. Maynard proposes really to put a ceiling on the operations of the banks, so to speak, where they are now, by providing that in future, liabilities incurred by the banks, that is, deposit liabilities, must have against them 100 per cent cash reserves. As I understand it what that means is that the present situation, so to speak, will be crystallized, but that if the chartered banks are to make further loans, they are to keep them as described in paragraph 2 which says:

(2) The Bank of Canada Act should be amended to authorize the Bank of Canada to advance to the chartered banks such cash reserves as are necessary to enable the chartered banks to comply with this requirement and at the same time expand loans to whatever extent is necessary to ensure the progressive development of the national economy.

Now, I have two questions: First of all this seems to create a curious division of the banks business into two parts; but my first question is: "Who is to determine the amount of loans necessary to ensure progressive development of the national economy"?—A. Just a moment ago, Mr. Macdonnell, you referred to the necessity of bank debt in an expanding economy and you gave it as your opinion that it was necessary to go into debt for the purpose of expanding.

The object of proposal No. 2 is to enable the banks to advance the funds necessary to meet the requirements of an expanding economy so that production will not be crystallized at the present level.

Proposal No. 2 will enable the banks to put into circulation the amount of money that is required to finance the consumption of goods that are produced by money loaned or advanced by the banks for production purposes.

Now the question is: Who will determine who will advance the money to the banks for production purposes?

I indicated that we already have in the Dominion Bureau of Statistics the necessary machinery to keep tab on the amount of production throughout the country; and, as and when the Dominion Bureau of Statistics ascertains what production is necessary, then the mechanics by which the amount of money can be put into circulation to finance that production is through the Bank of Canada. There is no problem in ascertaining the actual physical requirements of the country. There is no problem in ascertaining the manpower requirements of the country; and there is no difficulty in ascertaining the amount of money required to put human resources to work and to develop industrial resources and get the production that we can and should have.

By Mr. Macdonnell:

Q. Well, Mr. Maynard, you have far more belief in the magic of statistics than I have. Would you not agree that statistics always come after the event? That is to say, statistics merely record what has already happened? Often statistics are useful indeed and enable people to gauge what is going to happen, but would you not agree that what is necessary is not merely to look at statistics? There is always human judgment left, because statistics merely record the past. If statistics could do what you say they can do, we would all be billionaires because we would know exactly what the stock market was going to do and we would not have to work anymore. Can you not agree that statistics come after the event, be it days, weeks, or months after the event?—A. Every government forecasts its budget a year ahead of time. They look to the future—to the future requirements of the country.

Q. That is what they call "an informed guess"?—A. An informed guess based on the evaluation of information as to the past and on good judgment sense as to the future.

Q. Well, I cannot share your feeling that it is going to be easy to get these figures, because I think it will be difficult. I do not believe there is any person capable of doing it now. I wonder if you have in mind a thing which enters largely into any estimate of this kind? You have given us many figures as to the aggregate of money outstanding, but there is another feature, namely the velocity of circulation of money. Money circulates—I have not got the exact figure—but it circulates a good many times a year. One economist has suggested 12 times; another ten times.

Picture to yourself these men who are to determine this immensely important question and picture their position as against that of a man at the present time, let us say, who is a banker and who is determining whether he will make a specific loan. He has all the information with regard to the business; he has the history of the industry and the capacity of the man who wants to borrow the money, and he has the assistance of his senior officers

in the bank, and he arrives at a conclusion. Thousands and thousands of such conclusions are being made every day across Canada. He has gone into it with the best minds that the bankers can produce. You are suggesting that, let us say, a small group of men are going to be able by looking at statistics of production to determine just how much more money should be issued for various purposes throughout Canada?—A. I am suggesting that the Bureau of Statistics is in a position to ascertain the requirements of the people of Canada.

Q. In respect to the amount of money?—A. In respect to the amount of physical goods required.

Q. What do you mean by "required"?—A. The amount of, let us say, automobiles, radios, or frigidaire.

Q. Do you mean the amount that can be produced at a certain figure?—A. The amount that is lacking in the country.

Q. How are they going to determine what is lacking? I saw a statement the other day that every Canadian had a basic right to own a motor car. I know that I was nearly 50 before I had one. Would they assume that every Canadian has the basic right to own a motor car? How are they going to arrive at what is necessary?—A. There are certain things that are recognized as necessities of life such as food, clothing, and shelter. I do not think there is any question about that. There are other things which are recognized as luxuries. Let us just, if you wish, stay in the field of necessities. The Bureau of Statistics now knows the amount of housing that is required in the country to meet the requirements of the people of Canada.

Mr. FLEMING: No!

The WITNESS: Well, they have a pretty fair estimate. If they haven't got the information they are in a position to acquire the information.

Mr. FLEMING: We spent weeks on that subject here.

By Mr. Macdonnell:

Q. May I ask a question? I find myself very perplexed by your belief that this is a simple matter. To me it is infinitely complex. Let me ask another question—A. Let me say one thing right now. I do not want to give the impression that this is a simple matter. No, it may be a complex matter but not insurmountable.

Q. Let me just take one statement of yours that the Bureau of Statistics knew how many houses were needed—but in order to know that have they not got to know—apart from a lot of other things—what is the top priority wish of the Canadian citizen. I mean the fact that there are 20 or 30 or 50 hundred thousand people who want houses does not mean they are required. Those people might want a lot of other things more. If you go on that basis, how are you going to be able to find out what people really want? Can you explain that to me? You said with great confidence that the Dominion Bureau of Statistics could do it.

Mr. HUNTER: They never have so far!

The WITNESS: Mr. Macdonnell, it may be that the Dominion Bureau of Statistics would need additional staff in order to make the survey required to ascertain the needs of the people of Canada, but I do not believe it is an insurmountable job and the Bureau of Statistics, properly staffed and properly equipped, could ascertain the requirements of the people in the field of necessities of life whether it be housing, food, or clothing.

By Mr. Macdonnell:

Q. Supposing they were charged with this task and said to you, "Can you tell us how to determine whether a house is necessary,"—what would you say? I could not answer that.—A. I would first of all have the Bureau of Statistics obtain the cooperation of the provinces—and I can assure you the province of Alberta would cooperate to ascertain the number in Alberta. The provincial government would organize into units and deal with the municipal authorities to find the number needed in each municipality.

Q. Would they know how many wanted rental accommodation and how many wanted individual owner accommodation?

Mr. CRESTOHL: And how many can afford to pay for it?

The CHAIRMAN: Let us stay with this present question for a moment, gentlemen.

Mr. MACDONNELL: As far as I am concerned, the more the merrier.

The CHAIRMAN: Please permit the witness to answer this question.

The WITNESS: That is another aspect I would like to deal with later. Having broken it down by request on the basis of municipal organization, the municipalities would be in a position to ascertain by making a survey the number of people that required houses or housing either to rent or as home owners. You can break it down on the municipal level. Surveys have been made on that basis before. We made them in Alberta on the municipal level and it is possible to find the information required on a municipal level basis.

By Mr. Macdonnell:

Q. In this room not long ago we were considering the Housing Act. I am not nearly as familiar with it as some members of the committee are, but it did become clear that various perplexing questions arise when you attempt to consider the number of houses required—and when I say "required" I mean it in the practical sense that they can be built. One of the great catches was the amount of municipal services which need to be constructed and at that time—I speak with deference to the other members of the committee—but I would say that the members of the committee did not feel it was easy for any group of men to sit down and say the number of houses necessary at the present time is so much. I think they would find great difficulty. Let us go on now to motor cars. That is perhaps even more difficult because there was a time when a motor car was regarded as a luxury. We know it is no longer regarded as a luxury and many times it is not a luxury, but nevertheless motor cars are used to a great extent for pleasure. How are you to determine how many motor cars are necessary?—A. The survey I mentioned in connection with housing could well be made on the municipal level for any product. It is not a simple matter, of course, but it is a matter I am not prepared to say cannot be done. It is not an insurmountable problem to ascertain the requirements of the people in Canada if you break it down into units.

Q. Perhaps I had not better press it further, Mr. Maynard, but I must record my opinion that when you say this is a matter which the Dominion Bureau of Statistics can determine, I really am surprised that you should say that because in the first place and in the last analysis there will be a broad questions of policy, I presume, involved as well as absolute economic consideration, but you, as I understand it, say—and perhaps I had better leave it here—that you see no difficulty in the Dominion Bureau of Statistics arriving at the amount of various kinds of production which are necessary. You are going to have the Dominion Bureau of Statistics do that. In other words, you are entirely changing the present system whereby thousands of people across Canada who are in the business of issuing credit determine what is necessary having regard to markets and people's desires and a hundred and one considerations including

the ability to pay. Now, you are going, you say, and you surprise me by saying—but I understand you to say very definitely that the Dominion Bureau of Statistics you consider can arrive at a judgment on which you would be prepared to see the Bank of Canada put out—for all I know—hundreds of millions of dollars. You are going to crystallize the present situation where it is now, and for the future you will have apparently an entirely new method of arriving at the purchasing power which is needed, is that correct?—A. Not altogether, Mr. Macdonnell. I would not like you to put words in my mouth.

Q. I do not want to do that.—A. Fine. If you do not mind, I will just take a minute to explain the purport of these proposals. We visualize the banking system continuing to operate as it is today for production purposes. We visualize that the banking fraternity along with the people in Canada and the corporations that are producing, carrying on in the field of production as they are today. But as and when the present method of doing business reaches the point where we are producing goods that the people are not able to buy because they have not got the money then it is obvious that the banks will not continue to make loans for the production of additional goods that cannot be disposed of. We have the experience of the past depression to indicate that. We have the experience of the great depression of the "hungry thirties" when the banks, instead of making loans to carry on the production of the country, called in their loans with the result that there was still less purchasing power in circulation to enable people to purchase goods that had already been produced. The first thing I would like to emphasize is that the present method of doing business will not be interfered with and that the banks with the \$9 billion that is now available in bank deposits would be in a position to carry on their productive loans in the same manner as they have been in the past. They will be able to make loans on the creditability of the people who are borrowing and as long as the product is required in the opinion of the banking institutions and in the opinion of the people making the loans then production will continue. Now, I come to the next step which is the field of consumption. Before you can keep on producing you have to be able to dispose of the goods that you have already produced. That is where the government comes in to assist the people with additional purchasing power to buy the goods that have been produced through loans from the banking institutions. When the people have additional purchasing power to buy these goods then you will find the country in the position of requiring far greater production than you would have if you were to crystallize the expansion of credit on the present basis. To further increase production in order to meet the requirements of the people the banks would use the money that was put into circulation by the Canadian government and issued, as we suggest, interest free by the Bank of Canada; then, that amount of money, whether \$500 million or \$10 million could be immediately used by the banking institutions for the purpose of expanding bank credit on the 100 per cent reserve basis suggested.

Q. Now you get to another point. Are you now referring to the production of goods or to the consumption of goods?—A. The second point was the consumption of goods and I am now coming to the third point—additional production. After you have consumed the goods you have produced, which is my second point, you will find yourself in an expanding economy where additional production is required, because if the people have the money to buy the goods that we are able to produce, we are going to require a greater quantity of goods than we now have. That is the point I want to get over. If you allow the banking institutions to use money issued by the Bank of Canada and put into circulation by the Canadian government as cash reserves for the purpose of expanding their bank loans on the ratio of ten to one then of course you are going to have a very serious inflationary position in Canada. The reason therefore why—

Q. Do you consider you have a serious inflationary position now?—A. No, we do not have a serious inflationary position as long as we have surplus goods.

Q. Why do you think we have the Bank Act and the present system of credit for 20 years? Do you consider that at the time we went through what many of us consider was a period of inflation—do you think we have a period of bad inflation now?—A. No.

Q. I do not want to take too much time, Mr. Chairman. You outlined to us what you think that the Dominion Bureau of Statistics can do in respect of determining the amount of production which is needed. You said that a few minutes ago. You said you thought this could determine the number of houses and motor cars. Referring to your third proposal where you suggest the putting out of money, I read from page 97 of the brief where you say,

—such sums of money as may be necessary from time to time to supplement the aggregate money supply of the country—

Now, I take it, you are saying again that somebody—and I presume it is the Dominion Bureau of Statistics—is going to determine the sums that are necessary from time to time to supplement the aggregate money supply of the country. Am I right?—A. Not necessarily. The Bureau of Statistics will ascertain the amount of goods that are required or can ascertain the amount of goods that are required in the country.

Q. At certain prices?—A. Not necessarily at the prices. That can be determined by the production machinery we have in the country today.

Q. But you say that going to arrive at the amount of goods without taking into consideration any price?—A. Yes, Mr. Macdonnell. We require so many housing units, so many motor cars and so many refrigerators.

Q. And then they would determine the price?—A. No, they would not determine the price.

Q. What did you say about price a moment ago?—A. We visualize the Dominion Bureau of Statistics as an organization and if it is not set up at present to do an efficient job, if it could be and should be given sufficient staff and equipment to ascertain the physical requirements of the people of Canada.

Q. Regardless of the money side at all?—A. Yes, and the money aspect will come in through the Bank of Canada and the operation of the banking system.

Q. But how do they determine the amount that is needed?—A. For the production of goods?

Q. Who determines the price?—A. The manufacturer.

Q. Let us get this right. The D.B.S. determines how many motor cars, houses and so on are needed and then the Bank of Canada figures out how much money is necessary to make provision for the purchase of these things, is that correct?—A. It all depends on the sequence in which you are taking it.

Q. How do they know which things people will want to buy first. Supposing they decide \$100 million is to be made available for the purchase of houses and supposing they find their figure of \$100 millions wrong and people do not buy houses but would rather have motor cars. How are you going to get any figure that will stick?—A. Well, Mr. Macdonnell, I am not so idealistic as to think we are going to be able to work out through these proposals the exact basis for issuing the exact amount of dollars to meet the needs of the people, whether it be houses or food or motor cars or what have you. There will undoubtedly be some goods that will be piling up and there will undoubtedly be some goods that will be short.

But am I right in thinking you are going to have one authority—apparently the Dominion Bureau of Statistics—that determines how many houses, how many motor cars, etcetera, are needed, and then the Bank of Canada having arrived at a price—and I am not sure how the Bank of Canada is then to make money

available for all the houses and all the motor cars and all the other things which the Dominion Bureau of Statistics has calculated to be necessary?—A. Well, Mr. Macdonnell, I do not want to try to confuse the issue, but could I put it this way again? First of all, I mention this by way of illustrating: we already have surveys made by private enterprise as to the amount of production that is required in various lines—automobiles and what have you—in the country today. Those surveys are made in Canada as well as in the United States. Based on the results of these surveys the manufacturers proceed to borrow the money from the banking institutions and start producing. In the long run I think it is fair to recognize that those surveys are pretty fairly accurate. The one trouble they face now and again is that the people having obtained the money to buy the goods they felt were required and are required, buy other goods instead. Now, these surveys are being made by private enterprise and it is no greater job for the Dominion Bureau of Statistics to make that type of survey for the whole of Canada than it is for a private enterprise to do it for any particular commodity. Having ascertained the amount of motor cars, as you suggest, that may be required then the production machinery will carry on as it is today.

Q. Can I stop you and ask the meaning of the word “required”. It seems to me that begs the whole question?—A. That the people want, let us say. I do not like to use motor cars as an illustration because in some cases motor cars are a necessity and in other cases they are a luxury, but you have used it so we will carry on with it. Let us take a pair of shoes, if you wish. It is possible to ascertain the requirements of the people in Canada as far as shoes are concerned—not down to the last pair of shoes, but roughly speaking an estimate—you could obtain a fair estimate. I would be very disappointed to know that under the private enterprise system which is in operation now and which we support, it would not be possible to ascertain the requirements of the people as far as shoes are concerned, to use an illustration.

Q. Let us go back to the illustration you yourself have raised. You have pointed out—and I think very accurately—that a motor car will offer a problem because motor cars are both luxuries and necessities—they are luxuries to some people and necessities to others. Now, motor cars are a huge item in our economy and you are admitting—or let me put it this way, are you admitting—that people who are fixing the amount of motor cars—will have to determine which are necessities and which are luxuries?—A. No, Mr. Macdonnell. If you want to stick to motor cars, let us stick to motor cars. I took something which was a little more down to earth possibly—I took shoes as an illustration, but let us talk about motor cars because it does not present a much greater problem. You still have people who want cars whether they need them or not. In some cases they are a matter of necessity, and in some cases they are a luxury and in other cases they are a convenience. Having ascertained the people that want cars—the people who are prepared to buy cars—you do not need a commitment from them any more than private enterprise requires a commitment when making a survey of the requirements of the people in so far as commodities in general are concerned. Having ascertained the general figure as to the automobile requirements then I suggest the banking system we now have in operation will be in a position to carry on financing the production of motor cars as they are doing today. Now, I will come to a point when, under the implementation of these proposals, they will not be able to expand credit beyond the limit that they have now expanded credit. That is where our proposal comes into operation. In order to finance the additional requirements of the country, the banks make application to the Bank of Canada for the necessary cash reserves to enable them to make loans to industry to go ahead and produce motor cars.

Q. That is on a 100 per cent basis?—A. Yes, that is the point. All they have to do is to show to the Bank of Canada the requirements of the people of the country as ascertained by private enterprise or by some other source, and I suggest the Dominion Bureau of Statistics; and they obtain the necessary funds from the Bank of Canada on a 100 per cent basis for the purpose of producing the things which are necessary such as the motor cars required.

Q. One more question: I think I should reiterate with deference that what you have said, it seems to me, is impossible of achievement, but that is my opinion against yours.—A. Might I state here that in the United States Harold Loeb made a statement that there would be no difficulty in making such a survey in so far as the requirements of the people of the United States are concerned. Harold Loeb was Chairman of the Committee on the National Survey of Potential Product Capacity.

Q. Who is Harold Loeb, we would need to know a great deal about him. Perhaps he does not support your position anymore than Leacock. May I ask you this: Nowhere it seems to me have you taken into account prices.—A. I am not ignoring prices. Price is a factor in the production of anything but let us not forget that during the war we were told by a responsible minister of the Canadian Government that our war effort was not to be limited by dollars and cents but by the physical assets and the human resources of the country. I suggest to you that the standard of living of the people of Canada should not be limited by dollars and cents but by the physical assets and human resources of Canada.

Q. We can all agree with you, but I would point out to you that when the bad times of the thirties were coming on someone said: "It is 4,000 miles from Halifax to Vancouver and it is just full of things." But we were in trouble because of international trade and we could not sell those things. Merely to say that we must not lack for anything or that no one must lack for anything as long as the physical products are there, that is true and we must do our very best to reach that stage. But it seems to me that we do not help ourselves to get there if we disregard certain financial laws, and one of those laws which we have run into is that in certain circumstances prices do rise and they can rise very fast and it seems to me that if on one side—and I am not suggesting you said this exactly; I am going to state it myself—you seem now to come very near the point of saying that there is going to be at some point on the one side a man who will determine not how many houses or motor cars are necessary, but how many people would like to have them.

• The CHAIRMAN: You mean "want".

By Mr. Macdonnell:

Q. Want; and if you are going to have a group of men who are going to provide enough money to produce all these things, which seems to be the result of what you said (and you have not, to my satisfaction, indicated in any way where the question of price comes in in order to determine it) they will have to determine how many of these can be bought. I have a modest motor car and no doubt I would like to have a better, bigger, and a brighter one. But I shall try to get along with what I have. However, I think there are a good many people I can think of who perhaps cannot afford to have a motor car but I am sure they would all like to have one. Again it seems to me that you have not said anything which relieves my mind of the feeling that this is just one vast inflationary scheme. You recognize the difficulties because this morning after you suggested that we should do away with the \$700 million sales tax, which would provide an increasing purchasing power of that much, you put in a word of caution. And if I had been able to question you at that time I would have said: "If it is a good thing to do away with part of our taxes why not do away with it all"? But you said we must do it

carefully. If you have a sense of moderation what is it that is holding you back? I do not see, on the basis of what you have been saying to us; it seems to me you ought to be prepared to go the limit; and when you say you are advocating doing away with a sales tax of \$700 million, that is \$700 million to be spent this year and the same amount again spent next year; and to the extent that it has an inflationary effect, it has a cumulative inflationary effect. Mr. Chairman, you have been very patient with me.—A. I would like to make one further comment to Mr. Macdonnell. I do not know how I can elaborate on it any further. Mr. Macdonnell is concerned with the question of price. We have in the field of private enterprise today organizations that are making for private enterprise exactly the same kind of survey we are suggesting that can be made by the Dominion Bureau of Statistics. Private enterprise is making such surveys for individual commodities. We think this matter is not related to price. It is the manufacturer who, after having ascertained from a survey that is made, the number of units he should produce, then goes ahead and produces those units.

Q. Without regard to price?—A. The production is made with regard to price, but after having ascertained the number of units that he can sell for a price, he then obtains the loans from the bank with which to produce those units at a price.

Q. Do you think that the number he produces is the number which he thinks that people would like to have or the number which he thinks people can buy?—A. The number that people can buy.

The CHAIRMAN: That is not what you were talking about. This is the first time I have heard anything about the number that people can buy. I think you started out by saying the number which people want.

The WITNESS: That is right. That question was raised over here.

The CHAIRMAN: No. There was a reply and then an explanation was asked, as to what was meant. The witness used the word "want", and I allowed Mr. Macdonnell to continue the questioning. Then you changed our ground somewhat, did you not?

The WITNESS: No, if people have the money, they will buy what they want.

By Mr. Macdonnell:

Q. Now you are sneaking up on us and putting the money factor in.—A. We dealt first of all with the physical requirements of the people of Canada; those physical requirements have to do with the wants of the people, what the people want, and what they are prepared to buy. In some cases they cannot buy; in some cases the people cannot buy what they want because they have not the money. In other cases they are prepared to buy what they want because they have the money. But you have a class of people today who have not the money to buy. They have the need. They know what they want and if they have the money they will buy. Those are the requirements that we are concerned about. And as you ascertain the needs or the wants of the people on that basis, you will see to it that they are going to have the supply of goods that they want. Then the productive machinery can go ahead and produce the goods.

The CHAIRMAN: Mr. Philpott.

By Mr. Philpott:

Q. Do you represent only the Social Credit Government of Alberta or do you represent the Social Credit Government of British Columbia as well?—A. The Social Credit Government of Alberta.

Q. You do not represent the Social Credit Government of British Columbia?—A. That is right.

Q. I thought you were not representing them because I see that the British Columbia government just raised the retail sales tax from 3 per cent to 5 per cent. And now I want to refer to page 66 of your brief. Would you agree with me that Major Clifford Douglas is the great founder of the whole theory of social credit?—A. That is right.

Q. And that he probably more or less came to the same conclusion that Karl Marx arrived at, but Karl Marx thought there was a defect in the capitalist system because the employers did not pay the workers enough, and he referred to it as expropriated surplus values, while Major Douglas arrived at the same conclusion but by a different route which is set forth briefly at page 66 of your brief, where he refers to group A payments and group B payments.—A. That is right. I am prepared to accept that statement, and it may be your conclusion after you studied Major Douglas and Karl Marx, but I do not think it is material to our submission here.

Q. Is it a fact that Major Douglas' whole theory of social credit or philosophy is based on the idea that there are two costs of industry, costs A "All payments made to individuals," and costs B "All payments made to other organizations," as set forth at page 66 of your brief?—A. That is the basis of Major Douglas' theory.

Q. Included in your brief at page 66?—A. That is right.

Q. And that the whole theory is based on the Douglas conclusion that there was a mechanical difficulty that the people never have enough purchasing power to buy the goods that they produce.—A. That is right.

Q. And therefore we get to another famous social credit idealist, Maurice Colbourne, in a book he called "Unemployment Or War". I have all the books of Major Douglas and I have read your brief, and frankly I see a marked difference between your submission and that of Major Douglas in this respect that he claimed he had a very clear cut devices to prevent runaway inflation which he called the "just price", whereby all the goods are sold below cost in what he calls the "just price".—A. That is right.

Q. But that is not included in your submission.—A. Yes it is, but we call it subsidies.

Q. All right. That is what I wanted to get. In other words, where you refer to price subsidy on page 112 that is the same thing as Mr. Douglas' "just price"?—A. In effect, yes.

Q. Do you know that Maurice Colborne's book called "Unemployment or War" was the instrument which converted Premier Aberhart, and that in that book the "just price" is set forth as being 25 cents on the dollar?—A. That may have been so under certain circumstances.

Q. Is it not a fact that in that book he set forth 25 cents on the dollar as a rough figure?—A. I cannot recall it, but I accept your statement.

Q. Have you studied "Douglas' Social Credit in Canada" by W. A. Tutte of Vancouver?—A. No.

Q. Well I have studied it carefully, and I can say that he gives the "just price" as 40 cents on the dollar. Would you disagree with that?—A. No.

Q. In your brief you quoted Mr. C. M. Hattersley, MA, LLB. as being in the literature now sold by the Social Credit party in Canada. He was your authority?—A. That is right.

Q. Would you agree that he gives the "just price" as 90 cents on the dollar?—A. I do not know about that.

Q. I would be glad to lend you this book in which he gives 90 cents on the dollar. Would you agree that if the three great authorities on Social Credit who developed their whole argument on very careful and mathematical

calculations finished with one authority saying 25 cents on the dollar, another authority saying 40 cents on the dollar, and still another saying 90 cents on the dollar that at least there is wide room there for argument?—A. There certainly is wide room for argument. That is why we did not quote any percentage in our subsidy figures submitted. We are not suggesting that the subsidy or the “just price” should be used as a means of controlling inflation. We are giving additional means in our brief.

That leads me to a sort of mechanical criticism that whereas Major Douglas suggested more or less that we should have control over inflation, and whereas he had a large number of devices or mechanisms to control it, you have left out your “just price” mechanism. Therefore you have uncontrolled inflation?—A. No, because of the question of subsidy. We call it a subsidy but Major Douglas called it “just price”. It is one of the two means we suggest whereby to control inflation. The amount of the subsidy is not fixed because you cannot fix an arbitrary figure and with all due respect to the gentlemen you quoted, I think any amount of subsidy has to be determined at the time it is imposed in relation to the circumstances which exist when it is imposed.

Q. Thank you very much. But we now come down to the practical mechanics of today and may I ask you to turn to page 84 of your brief where you have a concrete proposal as to how we should sell our wheat, our wheat surplus. You will correct me if I am wrong, but as I read your brief this is it: We have a large wheat surplus and a surplus of other food and commodities and we want to get rid of this surplus and your proposal is that we issue money and that we give this money to the foreigners. Is that right?—A. Just carry on.

Q. And these foreigners buy our wheat with the money or credit we have originally given and then we decide, according to your theory, whether or not we take anything for the money that we have originally given, or whether we get anything back. And then you say in paragraph 3 on page 84:

If we are not prepared to accept from these foreign countries their surplus goods in exchange for our own surplus wheat and other goods either because we do not need the goods or do not want their goods, then the loan made to these countries by the Bank of Canada to buy our Canadian wheat and other surplus agricultural products should be cancelled.

That is the proposal?—A. That is right.

Q. And the social credit proposal is now that to get rid of our wheat surplus—and we have a one year's unsold wheat crop—we should print the money and issue the cheques to foreigners and we give them the wheat.—A. Now I do not think that the question of printing money or giving money is the vital question we are concerned about. The mechanism, if you want to discuss the mechanism, is very simple. A loan to a foreign country is all that is required. Instead of giving the foreign countries dollars, all that is required is for the Bank of Canada to make loans to foreign countries for the purpose of buying our wheat. As the countries buy our wheat, the credit with the Bank of Canada is used in payment. In so far as giving them actual dollars, that is not necessary.

Let us say that they owe us \$100 million for wheat which they buy. Now, in owing us \$100 million we are faced with the question of repayment. They have not gold to repay us or we cannot expect gold in repayment, and the only thing we can do is to accept goods in repayment. But if we impose a tariff on those goods to the extent that they cannot compete with our own Canadian-made goods, then we are putting ourselves in the position of saying that we are unwilling to accept goods that they are offering us in payment. There is only one thing to do, either keep the loan outstanding or in due course cancel it.

Q. Would you agree . . . ?

Mr. Low: Would you not say there is just one other thing, or may there not be an alternative: What about the amount they owe us on deposit in their own country for investment there?

The WITNESS: Oh, that is right, yes. Reference was made to it.

By Mr. Philpott:

Q. I do not think it is in your brief. Maybe it improves your brief a bit to get advice from the federal leader of the social credit party. But would you agree that every country must pay for its imports by its exports in the long run?—A. Yes.

Q. Then we have very good exporters in Canada of wood, Canadian base metals, British Columbia salmon, and even for Alberta oil and gas, we hope, before long. How long do you think we will have these foreign exchange exporters when the word gets around that if they do not want to buy our goods, we are going to give them to them for free?—A. Again that is a question of practical application.

Mr. HUNTER: You said it!

The WITNESS: If we find that our wheat is building up to a point where we cannot dispose of it, or because we have too much of it for ourselves or ask too much from the countries that require it but cannot afford to buy it, then the only solution to the wheat problem is to make it available to the less fortunate countries that need it. But this does not mean that we should give our oil to countries who are in a position to pay for it, or to give our lumber products or any other products to countries which are in a position to pay for them.

By Mr. Philpott:

Q. You made the statement in your brief that accumulated debt is never repaid. Your government has not done too badly in repaying some of it, has it?—A. I indicated that the aggregate amount of debt cannot be repaid. I made it quite clear that some individuals, communities or governments can repay but if you will look at the figures for accumulated debt over the last 100 years you will find that the countries have been going more and more into debt. They cannot help it because it is a principle of the system.

Q. Would you agree that in the past seven years we have had very high prosperity in Canada along with reasonably good employment?—A. Yes.

Q. And during that time we paid off about two billion two hundred and eighty four millions of our national debt?—A. That is right. I accept the figures as being correct.

Q. How many witnesses have we got?—A. I accept the figures as being correct, but remember that in my brief I suggested that public debt has been repaid by devaluation of the currency. Now, Mr. Philpott, I think you will recognize that the debt which is being repaid today is not being repaid in the same dollar value as when the debt was incurred. That is one of the views Mr. Towers referred to and one of the favorite methods used to reduce the public debt.

Q. I was very much surprised to see in your brief the same argument that full employment is impossible. Do you stand by that? I was in Alberta during the last provincial election although I was not taking part in it, and I thought the roads there could be very much improved and that you should have new sewage systems and all sorts of things. Do you think that we will run out of work so that we cannot have full employment?—A. If you refer to the conclusion in the brief you will note that I deal with the question of full employment in the field of production. On page 118 in the second paragraph I made the suggestion that if we are going to retain labour in full production

it will be necessary to reduce the work week in order to spread the labour around. Outside the field of production of goods you have of course the vast field of public enterprise where you can put people to work. When you refer to roads I recall that in 1936 we obtained some assistance from the Canadian government for a road program in the province of Alberta. Part of that money had to be used in putting unemployed people to work and part of it we could use as we saw fit.

We tried to get the Canadian government to let us use all of it to use machinery to do the road-work because it would cost us less and we would be able to do more road work than by putting unemployed people to work. In fact we actually made a demonstration, and part of the road we constructed from Edmonton to Calgary was done by machinery while another part was done by labour. It cost us less to do the work by machinery than it did by manpower. Today the situation is that with the present road-building machinery you have not got the employment facilities in road-building that you had in days gone by, such as the days of the wheelbarrow and the scoop shovel. And that goes generally speaking for the field of public work. Advances in technology have made machinery available, and with that machinery we do not need the amount of labour such as was required in the past to carry out work projects.

Q. I cannot find in your brief any reference to the fact that several times, particularly in the Hitler war, the government of Canada had to issue debt free approximately \$1½ billion of national credit. What was the reason for the omission from your brief of the fact that what we have already done in a limited way is what you propose to do to an unlimited extent?—A. Are you telling me that the Canadian government issued debt free without any charge whatsoever \$1½ billion?

Q. I am telling you that on the evidence of Mr. Towers we issued \$1½ billion of deposit money for a total cost of $\frac{3}{4}$ of 1 per cent service charge. A. A total cost of $\frac{3}{4}$ of 1 per cent service charge?

Q. Surely you would not want to deny them the cost of handling the stuff?—A. Not to the Bank of Canada or either the chartered banks, but I am not satisfied that $\frac{3}{4}$ of 1 per cent is the handling charge to the Bank of Canada.

The CHAIRMAN: There has been very clear evidence given before this committee by the bankers representative who approved. They have agreed that it was the amount of $\frac{3}{4}$ of one per cent. That was the evidence which was given before the committee.

The WITNESS: Is that the Bank of Canada or the chartered banks?

The CHAIRMAN: The chartered banks.

Mr. QUELCH: From short-term loans.

The WITNESS: For the purposes of the record, that was money issued by the chartered banks, not the Bank of Canada.

By Mr. Philpott:

Q. We had a long discussion and there was doubt as to the authority of the banks, but the reasons were set forth why it was handled in the precise way in which it was handled to get away from the very dangers you suggested. I want to submit that it is one thing to issue a limited amount of national credit when we have an iron-clad system of price and rent controls such as we had in war time and another thing to issue unlimited credit when we have no controls whatsoever.—A. Nowhere do we suggest that an unlimited amount of credit should be issued. We suggest time and time again that bank credit should be issued by the Bank of Canada at cost as and when the country requires it.

Q. You are aware of the times before there was any social credit party in Canada, when there were moderate money reformers who advocated such things as the Bank of Canada which we now have.—A. Yes

Q. And as well as Liberals, there may have been a conservative or two, or a United Farmer in Alberta.

Mr. FLEMING: We know it was a conservative who brought the Bank of Canada into being. Lord Bennett was usually regarded as a conservative.

By Mr. Philpott:

Q. I am not going to argue about that, but I am suggesting that before social credit there were moderate money reformers.—A. That is right.

Q. Would you say that the difference between the moderate reformers and social credit is that the moderate reformers believed in the principle that a camp fire is a good thing, but that the social credit people believe that a forest fire is an improvement.—A. That may be your interpretation but I suggest you are away off the beam.

Mr. Low: As usual!

The CHAIRMAN: Now, now! Mr. Stewart, you are next. Mr. Pouliot wished to ask two questions, he has to leave shortly. Would you like to proceed, Mr. Pouliot?

By Mr. Pouliot:

Q. Thank you, Mr. Chairman. Mr. Maynard, would you say that the doctrine of the Social Credit party is the same now as it was at the time of Major Douglas?—A. The principles advocated by the Social Crediters are the same now as advocated in 1933, 1934 and 1935, but I would like to point out, Mr. Pouliot, that this submission here does not embrace the whole of the Social Credit doctrine.

Q. No, but I want to understand something and I wish to take the liberty of asking you some questions following the questions asked by Mr. Philpott. Do you represent the Social Crediters of the province of Quebec?—A. I represent the Social Credit government of Alberta.

Q. But you do not represent the Social Crediters of Canada?—A. I am here speaking on behalf of the Social Credit government of Alberta.

Q. Yes. Period. Thirty—A. Yes.

Q. Well now, some years ago I desired to have some information from your leader at that time, Mr. Blackmore, who expounded the principles of Social Credit in a practical way and I asked him to suppose for one minute that the population of the whole world was 100 people—to assume that the population of the earth was 100 people—and then I questioned him about the machine that you referred to. I asked Mr. Blackmore how the machine could provide anything for the 100 people and how many of the 100 people would have to work on the machine and this is his answer at page 1540 of Hansard of March 3, 1939:

That is a sincere question, and I think I can bring the answer forcibly to the hon. member's attention in this way: if we continue at our present rate we shall arrive at the point where all the goods and services people can possibly use will be produced by about two per cent of the population. So that really the people who are getting the \$50 a month are getting it from the work of the machines, which have so tremendously increased the productive power of our people that it is almost as though we had these hundred people in the lovely valley where all the fruits, all the fishes and everything of that kind were produced in abundance. We know such conditions could exist. We have virtually made this world into such a valley now where we can

produce plenty; for we have learned to produce more of every kind of food, clothing, shelter and amusement, than we can use. But we cannot use the labour of all the people; we use machines instead. The question is, shall we let the machines work and let the people have the results of that work, much as one would allow people to pick fruit from the hillsides and catch fish in the streams; or shall we deny all the people who cannot get at the machines the privilege of enjoying any of the benefits derived from the machines which put them out of work? That is the vital question confronting us.

And then I said:

I was dealing with a world population of one hundred. My hon. friend said that at the rate the machine age was progressing, in the more or less distant future only two per cent of the population would have work.

Mr. BLACKMORE: Probably, I just supposed that.

Q. Do you agree with that, Mr. Maynard?—A. Mr. Pouliot, I have not made a study of the statement given by Mr. Blackmore. I do not know on what he has based his two per cent figure and I am not in a position to make any comment on that statement.

Q. Do you expect that the age will come with the assistance of machinery when only two per cent of the population of the world will be in a position to give work to 98 per cent?—A. I do not know what the percentage will be, Mr. Pouliot, but there is no question about the fact that with the development of technology and the power age and advancing machinery all the people will not be required to produce the goods that are required by all the people, but I do not know what the percentage will be.

Q. Will you allow me to tell you what another organizer of the Social Credit group has told the editor of the "Le Saint Laurent" paper? He asked him, after the man had expounded his theory, if the idea was to earn a living without working and the man replied "yes".—A. I could not subscribe to that statement. That is why I suggest in the field of production it may be necessary to spread the work around to more people by cutting down the work week, Mr. Pouliot.

Q. Do you know that work has been imposed by natural law?—A. That is right.

Q. Since our great, great, great grandparents were in the Garden of Eden?—A. Yes.

Q. Then they did not have to work because they lived in a state of perfection which unfortunately we do not have?—A. But I also say this, Mr. Pouliot, that it is foolish to do away with machines simply for the purpose of giving work to men, but as we have been able to develop our machines we should put the machines to work wherever it is possible to do so.

Q. But what is the machine? What is the machine which will be operated by 2 per cent of mankind and will provide a living for 98 per cent? What is that famous machine—is that invented yet?—A. I am not commenting on the 2 per cent figure because I do not know what the percentage is.

Q. Let us put it at 10 per cent. Ten per cent of mankind giving work to 90 per cent?—A. I am not in a position to comment on a percentage, Mr. Pouliot—I am sorry, but I have not made a study of it.

Q. Well now, if you cannot give facts about the percentage, will you explain what the machine will be—can you give us an idea?—A. I do not know what machine Mr. Blackmore was referring to, but I can tell you this, Mr. Pouliot; I do not think there is any question about the fact that with the advanced power age that machines are gradually replacing manpower in production work. Now, if you wish to look at the brief I think you will find some

information in connection with that. The point I am trying to make is this: that as civilization progresses and as we develop the power age to a greater and greater extent then we will require fewer people for the same amount of production with the machine than we require at the present time.

Q. Do you agree with the statement made by Mr. Blackmore?—A. I cannot accept the 2 per cent figure, Mr. Pouliot, because I have not made a study of it.

Mr. JOHNSTON (*Bow River*): That was not given as a definite percentage either and Mr. Pouliot knows that quite well.

By Mr. Pouliot:

Q. It was a figure given in explanation by Mr. Blackmore which is much clearer than Mr. Maynard's explanation. It is also on the following page in the copy of *Hansard* I was referring to:

Mr. Blackmore: That is where the state comes in. If the machines operated by two men are producing enough shoes, food and every other kind of goods to feed all of the one hundred, then it will be the state's task to turn the goods into money; for while goods ought to be purchasing power, today they are not purchasing power unless they can be sold. The goods must be changed into money before they become genuine purchasing power. The state, using goods, creates purchasing power, tickets, and distributes them to the men, and then the men are able to take part of that supply of goods. That is the kind of situation we are going into, beyond doubt. It is not a question of the amount of income each of the two men can win running the machines. It is the fact that the products of the machines are enough to supply everybody's needs and are changed into purchasing power in the form of money or tickets, as though the machines were creating a great heap of all kinds of goods, and all the people around were enabled to have a share out of the pile. The tickets are made and distributed to the people so that they can buy goods out of the pile. If that is not done you will find this peculiar thing happening: with the two men doing all the work and apparently having all the purchasing power, your machines will run just long enough to feed the two men, while all the others will starve and the machines will stand idle—which would be absurd.

Mr. Pouliot: I do not quite understand the explanation the hon. member has given.

The CHAIRMAN: We will leave it at that. Mr. Stewart?

Mr. STEWART (*Winnipeg North*): Mr. Chairman, I wonder if I could bring this discussion back to the somewhat high, dry and esoteric realms of economic theory?—A. We have on page 66 of the brief the classical theory of Major Douglas—the “A” plus “B”—the theorem on which I am not too clear. We have group “A”,—all payments made to individuals and group “B”, all payments made to other organizations. I should like to follow this through with the help of Mr. Maynard, if he would be so kind. Let us assume there is a farmer who has a certain amount of wheat to sell and his costs of production and fair profit amount to \$100. He sells that wheat for \$100 to a miller. The farmer gets his costs of production which, as I say, are \$100. The miller buys for \$100 and adds his costs of production—let us say \$50 for wages and \$25 for his profit and overhead—a total of \$175 which includes the original price paid to the farmer. The miller's entire cost of production to that point is \$175. He in turn sells his flour to a baker. He gets his \$175 back which is his cost of production. The baker charges as his labour costs let us say \$50, and as his profit and overhead let us say \$25, and the total figure now is \$250. The baker

is paid by the consumer \$250. Now, where is there a deficiency of purchasing power under this argument which I have introduced?—A. In every one of the items you have given there is the deficiency in purchasing power of the \$100.

Q. Let us stop there. The farmer was paid \$100. I assumed that covered his cost of production and a fair profit. If the farmer was paid \$100 where is there a deficiency?—A. The farmer is the producer of the original product—the raw material. In so far as the raw material is concerned, I will accept your figure. Let us go on to the next one.

Q. The farmer's cost of production is covered and he gets \$100 from the miller?—A. Yes, I accept your figure. Take the next one.

Q. Now, he sells his wheat to the miller for \$100—his cost of production being covered—and the miller has his labour cost and his share of profit both of which amount to \$75, so the miller's cost of production and his share of profit would be \$175. Do you agree to that, assuming my figures?—A. That is right.

Q. And the miller sells for \$175, thus covering his cost of production to the baker who in turn has his labour cost and profit of another \$75 which adds up to a total of \$250. Now, assuming that the baker sells the bread and so on which he has made, he gets back his cost of production, all the others have had their cost of production—where is there an inherent deficiency of purchasing power in that theory?—A. If you take that \$175 item that is covered by payments for the raw material—

Q. \$100 is covered?—A. If the wheat and the rest is manufacturer's cost and the profit, bank charges and so on for the total \$175—

Q. Right.—A. When he sells that product for \$175 there is \$100 that goes to the producer because of the raw material but that does not cover the cost of the product itself.

Q. But we have agreed that the cost of the product has been covered because the farmer got the \$100?—A. Yes.

Q. That is covered?—A. Yes, but then he also had production costs himself which we accept. The producer of the raw material has costs of \$100 for the production of the raw material having distributed it in farm wages and so.

Q. That is included.—A. That is again the balance of the \$175 outside of the cost of the \$100 for the wheat which represents the cost to the miller and the profit and the bank charges. That distribution of \$175 is not all available to buy the goods because part of it had to buy the raw materials to start with.

Q. Which made the flour?—A. Yes.

Q. He has paid for them?—A. Yes he has.

Q. He has paid for his labour cost. He receives \$175 which covers all his costs and profit. Up to that stage, would you say there is any deficiency in purchasing power?—A. In the cost of \$175, yes.

Q. Why?—A. Because that \$175 is available to buy only part of the goods. It is adequate to buy the flour that is made, but you have your wheat on top of that.

Q. The cost of the wheat has been paid for in the \$100?—A. Could we just start again?

Q. The farmer has grown wheat and his entire cost of production, including profits to himself, is \$100. He sells the wheat for \$100 and we have agreed earlier the farmer's cost of production are covered. The miller has bought the farmer's production for \$100 and has paid the farmer. He has an additional cost of \$75. His total cost, including profit, is \$175. He receives \$175. Where is there a deficiency in purchasing power there?—A. Let us take the \$175 figure and break it down into two items.

Q. Wages and overhead and profit?—A. The two items I want to break it into are raw material \$100 and the \$75 for wages and overhead and other charges.

Q. And profit?—A. That is right. The \$75 that is paid in wages is less than the \$175 that is paid.

Q. But the farmer receives \$100 also—you cannot forget that?—A. No, but that is a different product.

Q. It does not matter. The money is in the purchasing stream. It is part of the purchasing flow.—A. Yes, but the miller on that \$175 article only pays out in wages and profit on the \$75 not \$100.

Q. But the farmer has the \$100?—A. Yes, but that is a different product. In so far as the \$175 product is concerned there has been distributed only \$75 in wages to buy the \$175 product.

Q. Are you not taking a purchasing flow instead of a series of flows? There is \$175 in the stream to buy the article which cost \$175, no matter who has it?—A. The farmer has the \$100. He has his wages to pay and his cost of production.

Q. And they are still in the purchasing stream?—A. Fine. It is there, but not in the wages paid to the manufacturer of the \$175 article. The raw material was paid for. You have the same situation with the farmer—although I cannot put my hand on it because it is raw materials—as you have in the manufacturer's product.

Q. But it covers all his cost of seeding and overhead and everything else. The farmer gets \$100. The miller gets \$25. The miller's workers get \$50. There is \$175 in the economy to buy \$175 worth of production?—A. But that first \$100 has been distributed for another product. That is what I am trying to point out. \$175 has been distributed for a second product, part of which only has gone into wages for the purpose of buying that product, and when you carry on with the \$250 item the \$250 item again covers only part of the wages that are paid for the purpose of buying back the article.

Q. You argue that to buy back what cost the baker \$250 to produce there must be in the purchasing stream \$100 to the farmer, \$175 to the miller and \$250 to the baker. You want \$525 in the purchasing stream for what cost \$250?—A. No, Mr. Stewart.

Q. It seems rather inflationary?—A. That would be.

Mr. FRASER (*Peterborough*): Did you say rather?

By Mr. Stewart (Winnipeg North):

Q. Let us tackle the problem of deficiency of purchasing power from another angle. You are by profession a lawyer. You worked in your profession as a lawyer. You have business experience as a lawyer. To earn legal fees you had to employ help and you had certain costs in the earning of these legal fees. Now these costs you had you paid out and therefore they became an element in someone else's income, did they not?—A. That is right.

Q. So that if we extend this further to industry as a whole every element of cost must be of necessity an element in someone's income?—A. Well, just carry on while I think about that statement.

The CHAIRMAN: That is a question.

The WITNESS: Was that a question?

By Mr. Stewart (Winnipeg North):

Q. I am asking if every element of cost is an element in someone's income.—A. I am sorry, I thought you were laying the framework for another question. Fine, all right.

Q. So that if there is an equation between costs and income there must be always sufficient money to buy what is produced?—A. Not necessarily.

Q. But you have already agreed that there was?—A. But not necessarily, for this reason: the price you have in the cost of your article represents two items that do not come into the purchasing stream. The first is the question of savings and as you deduct from the price stream the savings that are not available for the purchase of the article then you have a deficiency in purchasing power.

Q. So long as the savings are hoarded and not invested, but where the savings are invested there is no deficiency?—A. I cannot agree with you even there because if they are invested then they enter into the price of the commodity that is produced by the investment and if you have another saving there you have a double saving which is not available for the purchase of the article produced.

Q. Surely that commodity does pay for all the savings not yet ready for use and consumption which will be built sometime in the future and there is a present stream of money going out equivalent to the amount of savings?—A. That is the time lag.

Q. Yes, you have the time lag?—A. But apart from the time lag you still have a deficiency in purchasing power in the savings of the wages in the production of the first article which is then transferred into savings for the production of an additional article.

Q. And you would adjust that by giving payments to consumers?—A. Right.

Q. And what sort of payments would you give? We for instance in the House of Commons and your party too have accused the liberals of bribing the electorate by cutting taxes in an election year. What is to prevent another party in an election year giving elaborate bonuses to the people in the name of social dividends and for the sake of winning the election?—A. Well, Mr. Stewart, it all comes down to good straight business government administration. As and when you have lack of purchasing power in circulation then of course you have to supplement that purchasing power—I am not an idealist—I think you will find governments who will probably issue bonuses or reduce taxation. Those things have to be taken into consideration, but if a government does reduce taxation one year, it may find itself in the position of having to increase it the year after under the present system unless they can adjust their expenditures for the purpose of eliminating the necessity of increasing taxation thereafter. You will find the same position if the government issues more purchasing power one year and has to issue less the next year because the sum total of the purchasing power they had put into circulation was too much.

Q. Who would decide when and what amount of social dividend would be distributed?—A. Well, I am sorry if I did not make that clear from the brief. I mentioned that the two organizations required to put the proposals into operation were the Dominion Bureau of Statistics which would be obtaining the information required as to the physical assets of the country, and the Bank of Canada which has the machinery necessary to put the money into circulation, most of their new money put into circulation would be through the Canadian government.

Q. And would the decision of Mr. Towers be mandatory or would the government be able to alter it?—A. Undoubtedly there would have to be consultation between the Bank of Canada and the government on the same basis as exists today as we are told by Mr. Towers. Further the Dominion Bureau of Statistics would have to be consulted by both for the purpose of ascertaining the physical requirements of the country.

The CHAIRMAN: Mr. Fleming?

By Mr. Fleming:

Q. Mr. Maynard, I am intrigued by the expression "debt free money". Would you tell me, in the first place, how it is to be created?—A. By the Bank of Canada.

Q. I understand that the Bank of Canada is going to do it, but could you tell me how they do it—could you give me a physical description of the process?—A. First of all, could I tell Mr. Fleming—this is for the information of the whole committee: I think the expression "debt free money" is used not too often in the brief. I think you will find we have used the expression "interest free money" in most cases, is that correct?

Q. No, the expression is used. Now, if you wish to withdraw the expression from the brief I will start on another line of questioning.—A. We used the expression "debt free money" and then changed it throughout the brief to "interest free money" but I noticed going through it there was still the odd place where "debt free money" was used. The reason we changed it to "interest free money" was because when the Bank of Canada issues "interest free money" to the Canadian government it undoubtedly is issued as a debt but not bearing interest. That is why the expression "debt free" is used for the purpose of designating "interest free". Keep in mind when you see the word "debt free" that we mean "interest free".—I am sorry we did not catch them all when we finally prepared the brief—

Q. May I take it then that you wish to withdraw the words "debt free" wherever they appear in the brief?—A. Yes, and substitute "interest free".

Q. We have become rather familiar in the House of Commons with the words "debt free" because of the frequent use of them by some of the Alberta members. May I take it this is not a sound and accurate expression and should be abandoned now in favour of the more accurate expression "interest free money"?—A. Well, now, Mr. Fleming, as long as you define your terms it does not matter what terms you use.

Q. That is precisely what I want to get at.—A. I think the members in the House of Commons who were using the expression "debt free money" were using it in the same way you will find it here and there in the brief and that we try to eliminate it. We mean by that expression, "interest free money" and if we could define the term it would be money issued by the Bank of Canada at cost. It undoubtedly is a debt. It is a liability which does not bear interest.

Q. A liability of whom?—A. A liability from the Canadian government to the Bank of Canada when it is issued by the Bank of Canada to the Canadian government.

By Mr. Fleming:

Q. When the Bank of Canada issues this interest-free money, it immediately creates thereby a debt which is owed to the Bank of Canada.—A. And the books, yes.

Q. So you are immediately creating a debt there?—A. That is right.

Q. Then on page 112 you talk about the issuance of new money by the Bank of Canada at cost and put into circulation by the federal government. What is the cost that you refer to?—A. Whatever the cost of administration of the Bank of Canada is. That is the cost we are referring to.

Q. So this is simply the handling cost in the hands of the Bank of Canada?—A. That is right; not the handling cost or the service charges by the chartered banks when that money reaches the chartered banks.

Q. What are to be the methods? Is the method to be a matter of making a bookkeeping entry in the first instance?—A. Yes.

Q. What does that issue in?—A. It is just a credit on the books of the Bank of Canada to the account of the Bank of Canada.

Q. And what is the next step?—A. A cheque is issued by the Government of Canada in payment for services. The cheque is brought to the chartered banks and may then be cashed by the chartered banks or deposited by the recipient. The chartered bank then has a claim against the Government of Canada in the amount of the cheque. The chartered bank will debit the account of the Government of Canada, or the whole final wind-up in the books of the Bank of Canada is a credit to the chartered banks and a debit to the Government of Canada.

Q. And that completes the circuit?—A. That completes the circuit.

Q. This can go on as often and to the extent that the central bank creates money.—A. Yes.

Q. I take it that the amount created is going to be governed by what you describe, first of all, as what is necessary in terms of meeting the requirements of consumption. That is going to be the governing consideration?—A. Yes.

Q. The Dominion Bureau of Statistics is going to make this over-all survey as to all the needs in Canada. Is that correct?—A. That is right.

Q. It is going to determine at a moment of time what are the total needs of Canadian people. Is that correct?—A. That is right.

Q. In that way you say they are going to take over the function now discharged by private enterprise?—A. No. They will supplement the functions now being carried on by private enterprise.

Q. I did not mean that they were going to do it to the exclusion of private enterprise. That is not my understanding. But in doing that they will be doing the same thing that you said was being done now by private enterprise.—A. To a certain extent by private enterprise.

Q. So this is the biggest survey job that has ever been done in Canada?—A. Undoubtedly.

Q. As a matter of fact, in many respects it has never been done in any form before?

The CHAIRMAN: Or in the other place.

The WITNESS: I am not sure about the United States. I understand there was something similar to this done in the United States, and the post-war reconstruction committee set up during the war by the House of Commons endeavoured to do a job somewhat along this line, in ascertaining the field of public investment for the purpose of doing away with unemployment after the war, but the job was not completed.

By Mr. Fleming:

Q. What is going to be the yardstick? Let us go back to the simple illustration of the pair of shoes. Who is going to seek the information? Will a circular go out from the Dominion Bureau of Statistics? Are they going to issue questionnaires to every Canadian?—A. Oh, Mr. Fleming, I think we can get down into the details of this thing, but it possibly would just clutter up the record with things which are unnecessary.

Q. I am much concerned about the details of this operation because I am interested in your idea of a survey. Frankly I am staggered at what it is going to involve. We spent some weeks in this Committee discussing housing and we did not find any two people who were agreed on what was the housing need. And we find there has not been a comprehensive survey of housing needs or demands in Canada yet. I want to get at the machinery of this. Are questionnaires to be sent out to all Canadians to ascertain their needs, their consumer needs or requirements?—A. Frankly, I have not given too much thought

to the mechanics of the survey that would have to be made; but I would think that it would not be necessary to have a survey of all Canadian people in order to ascertain their needs.

Q. It would be to the extent that it was a survey, a government survey; it would be a government form or government inspector coming about asking people: What are their needs in the first place?—A. No. I would not say so. I think it would be possible—this is the first time I have given consideration to the question so if I am possibly thinking out loud, perhaps you will not mind. I will initiate a few ideas. I would say that the Dominion Bureau of Statistics have the requirements and know the population of the country to start with. They have some basic knowledge about the number of pairs of shoes worn yearly by Canadian people, or worn out, and they would be able to ascertain roughly the amount of shoes that are being used in Canada. From that information they would be in a position to ascertain the amount of shoes that would be required for Canadian people and the amount of production which the facilities we have in Canada are now able to produce.

Q. Then you are taking the figures of shoe sales existing today. You are simply going by demand. You are not going down to the question of meeting needs. Anybody can look at last year's shoe sales in Canada and say, for example, there were 25 million pairs of shoes manufactured in Canada last year for the consumer market and you estimate this year the population to be up 2 per cent, and perhaps the times are not quite as good, and you figure that 25 million pairs should be produced this year. That is what you are going by?—A. No.

Q. You will agree that is not necessarily requirement or need?—A. No, it is not.

Q. Filling up this gap of need.—A. Let us follow it a little bit further. In ascertaining how many shoes were used in Canada last year, we ascertain the average use per individual; let us say it was 3 pairs per individual, as a basic illustration; then it is possible to make a survey to ascertain the number of pairs of shoes used. There would be some people in Canada who would be able to buy them and they might buy five pairs.

Q. How do you arrive at that? Do you figure out what the people are going to buy if they have the means to do it?—A. That is right.

Q. So we are not on the basis of telling what the needs of the Canadian people are. We are getting down to a discussion of the effective economic demand which exposes itself in and through paying the price.—A. That is what you have to do.

Q. That is what you have to do?—A. But that does not meet our situation.

Q. But that is precisely the information you are going by, to classify the production you are going to figure on, year by year.—A. No. I would treat that as basic information for the purpose of ascertaining what the situation is today. Then I think it would be possible to make a gross survey, not checking everybody in the country, but ascertaining the amount of shoes used by people who are in a position to afford them—it might be five pairs—without questioning everybody in the country. And if you find that the average number of pairs of shoes used is five pairs by the people who can afford to buy them, then you are in a position to ascertain the number of people in the different income levels and ascertain the number of pairs that they would buy if they were able to buy them; and then you get to the lower income group and you are able to ascertain the number of pairs of shoes which the lower income group would buy if they were able to buy them. I do not think it is necessary to make a survey of individual needs of the people of Canada on the basis you suggest.

Q. I think you brought us back first of all to the present system under which people buy according to their means, and pay the price. You have not arrived at the situation where you have shown us where you are going to fill the need for these things. That is held out for the group that will be taking this survey and gauging the needs. You said you are going to fill the need or requirements. You are back at the same old question of purchase on the part of those who are able to purchase.—A. Such as the situation today.

Q. And that is the situation you describe now?—A. No. I indicated that if people were in a position or had the means to buy the shoes that they wanted, then they would buy them, but they have not the means to do so; and if they were provided with the means to buy them, you will be able to increase your production.

Q. Well now, suppose the 25 million pairs of shoes cost \$300 million and you decide—whoever is doing this planning—that you want to provide more shoes for this year—needs are not being adequately met today—and you need another \$100 million for them, does that mean according to that planning scheme there will be \$100 million added to the supply of money?—A. Roughly speaking, that is it. If the money requirements of the country are deficient to the extent of \$100 million for the purpose of enabling people who require shoes to buy shoes that are available that money should be put into circulation.

Q. Then the following year—that is a year's supply we are speaking of—you find the following year you still have a very serious deficiency on the part of those in the lower income brackets and perhaps some others who would like to get in on this, you are still short another \$100—does that someone have recourse to new money?—A. If the shoes are available, the production is available and the requirements, the needs, the want is there and you can satisfy that want by issuing another \$100 million, yes.

Q. Now, take the case of the houses. Housing this year running 100,000 units is costing in round figures a billion dollars, but there are not enough houses yet. Let us say we should agree for a moment that 250,000 houses are needed today. Am I to understand from that that there should be another \$1½ billion pumped into the money stream today in addition to what is there now and in addition to all the credit facilities available in order to provide the money required to fill that housing need?—A. I think the proposal has already been made in the House that the money required—the billion dollars required for housing in Canada—should be advanced by the Bank of Canada as “interest free” money. Did you say “No”?

Q. Mr. Low mentioned that.

The CHAIRMAN: Yes, Mr. Low proposed that in the House.

The WITNESS: I agree with you if a billion dollars is necessary for housing.

By Mr. Fleming:

Q. There were built in Canada 100,000 houses last year and it is reckoned they cost a trifle over a billion dollars. In addition to the year's program of 100,000 houses, let us assume there are another 150,000 houses needed immediately—that is a conservative estimate. Does that mean right now this year we are going to put up over \$1½ billion or 2½ billion of this “interest free” money?—A. I cannot say it would be put up this year, but as and when the economy of the country can use it—because remember this—when you put up a billion dollars for housing that becomes available purchasing power. As you increase purchasing power it becomes unnecessary for the Canadian government to put into circulation “interest free” money issued by the Bank of Canada. I want to make this clear that the object of the proposal we make is that the Canadian government should put into circulation “interest free” money issued by

the Bank of Canada for the purpose of supplementing purchasing power deficiencies that exist in Canada and for no other purpose. If the system could put into circulation the amount of money required for the consumption of the goods produced the government would have to.

Q. Your scheme means more money?—A. Yes, absolutely, based on the idea that we have a deficiency of purchasing power that has to be supplemented by someone and the chartered banks cannot supplement it.

Q. And you would achieve this by creating more money?—A. Yes.

Q. You keep using the expression—it was in your brief and in your evidence, Mr. Maynard—that “debt when paid off is at the expense of others.” You used that expression different times?—A. Yes.

Q. Why do you say that debt can only be paid off at the expense of others?—A. Could I ask, Mr. Fleming, if you have read the brief?

Q. I have listened to it with great interest. I have not read all the pages of the history.—A. Did you read Part II where I deal with the history of the accumulation of debt?

Q. I have not read any more than you read this morning.—A. I deal with that very question quite fully.

The CHAIRMAN: Suppose we leave that for Mr. Fleming to read.

The WITNESS: I will just give him the pages.

The CHAIRMAN: He is very good at finding pages. This is the first time I attended a committee where Mr. Fleming had not read the brief he was supposed to have read.

The WITNESS: Pages 33 and 34.

Mr. FLEMING: I will come back to that question at another meeting.

The CHAIRMAN: Gentlemen, it has been a very interesting afternoon, I propose to call a meeting for tomorrow afternoon at 3.30 p.m. to finish up.

Mr. FLEMING: We have the external affairs committee at 3.30.

Mr. CRESTOHL: Tomorrow morning?

Mr. STEWART (Winnipeg North): What about tonight, Mr. Chairman?

The CHAIRMAN: I had Mr. Abbott scheduled for Thursday morning—I hoped we would be able to finish today. What about Wednesday morning? There are no caucuses this Wednesday, are there? They would have been called by now.

Mr. STEWART (Winnipeg North): Yes, there is a caucus tomorrow. What about tonight from 8 to 10?

The CHAIRMAN: How long would you be, Mr. Tucker?

Mr. TUCKER: I would take about an hour. I think this is a very important subject which has been brought before us.

The CHAIRMAN: Very well, gentlemen, we will adjourn until Thursday morning.

EVIDENCE

APRIL 29, 1954.

11.00 a.m.

The CHAIRMAN: Gentlemen, we have a quorum. Your subcommittee begs leave to present the following as a fourth report: your subcommittee met on Wednesday, April 28, at 10.30 o'clock a.m., the following members being present:

Messrs. Applewhaite, Benidickson, Bennett (*Grey North*), Croll, Fleming, Hellyer and Weaver.

Your subcommittee recommends:

That the committee hear Mr. J. L. Phelps, representing the Interprovincial Farm Union Council and Mr. Hughes Cleaver, representing the Fruit and Vegetable Marketing Boards and Associations in the province of Ontario, on Thursday, the 6th of May.

Your subcommittee also recommends that the briefs submitted to the committee by the following be placed on the record:

The Canadian Feed Manufacturers Association; The Poultry Industry Committee of Ontario; Ontario Retail Feed Dealers Association; The League for Economic Democracy; Mr. E. S. Woodward of Vancouver, B.C., and Mr. Frank Ahearn of Toronto, Ontario.

Shall the report be adopted?

Agreed.

Mr. Abbott will be our witness on Tuesday. Our witness today is the Hon. Lucien Maynard, who will continue with his evidence. Mr. Fleming has some questions.

Mr. HELLYER: I do not think we should proceed until we can get the noise turned off. It is not fair to the reporters or to the rest of us who cannot hear.

The CHAIRMAN: I think we can proceed. Mr. Gratrix has gone down to request that the drilling on the library be discontinued for today. Mr. Fleming:

Hon. Lucien Maynard, Attorney General of the province of Alberta, recalled:

By Mr. Fleming:

Q. Mr. Maynard, may I remind you of a couple of answers you gave in your evidence on Tuesday of which I would like some explanation this morning? In reply to one question of mine: "Your scheme means more money?" your answer was "Yes, absolutely, based on the idea that we have a deficiency of purchasing power that has to be supplemented by someone and the chartered banks cannot supplement it. Q. And you would achieve this by creating more money?" The answer was "yes".

And in reply to another question you said: "I indicated that if people were in a position or had the means to buy the shoes that they wanted, then they would buy them, but they have not the means to do so; and if they were provided with the means to buy them, you will be able to increase your production."

I think we arrived at the point—and correct me if I am wrong—where it came apparent that for the type of scheme you have in mind, it is necessary in the first place that there be a complete estimate of need, however that may be defined. That you expect to have done by the Dominion Bureau of Statistics based upon the compilation of information and the estimate of need. Is that a fair summary of the position we have arrived at, Mr. Maynard?—A. I think I indicated on Tuesday that a survey would have to be made for the purpose of ascertaining the requirements of the country as well as the production facilities of the country.

Q. Then, as a result of that survey, and I presume the estimates are made in the light of that survey, someone estimates what is required in the way of additional purchasing power; is that correct?—A. Mr. Fleming, could I elaborate just a little on the survey question that was raised on Tuesday.

Q. If I may, I would like to get down to this matter of the relationship between your survey on the one hand and this matter of the deficiency of purchasing power on the other. Have I put it fairly, Mr. Maynard, that in the light of this survey and these estimates, presumably made by some governmental authority such as the Bank of Canada, an estimate is made by someone with governmental authority of the deficiency of purchasing power?—A. Of both. The physical assets and requirements of the country and the deficiency of purchasing power.

Q. Let us take a nice neat round figure. We will say you have arrived at an estimate of \$5 billion at one point as the deficiency of purchasing power. What do you do then?—A. I indicated in the submission several ways in which the deficiency of purchasing power could be overcome. I specifically avoided giving any round figures, because whether it is \$5 million or \$500 million or \$5 billion is something which I am not in a position to ascertain, but assuming there is a deficiency of purchasing power of \$5 billion, that deficiency would represent the discrepancy between the goods available for sale and the amount of money in circulation to buy the goods. On that basis the government—

Mr. TUCKER: I suggest we send word to the speaker that the noise should be stopped.

The CHAIRMAN: Mr. Hellyer has just left to do that. Please carry on.

By Mr. Fleming:

Q. We have arrived at the point where we will just say for purposes of discussion you estimate that the deficiency of purchasing power, let us say on the 29th of April, 1954, is \$5 billion. Now, what do you do then?—A. On that basis the government would put into circulation sufficient purchasing power to overcome the deficiency by one of the several means advocated in the brief, or a combination of the means advocated in the brief.

Q. What would be the amount the government would put into circulation in comparison with that \$5 billion?—A. There are two factors the government would have to consider: the total amount of deficit, and the velocity of circulation. Now, on the basis of \$5 billion—the figure you submitted—I do not know whether the figure would have to be \$1 million or \$500 million. That is something the monetary authorities would have to ascertain.

Q. Those monetary authorities being—A. Officials of the Bank of Canada.

Q. And then that money is just turned out into the money stream in the way you indicated on Tuesday—that is, created by an entry in the books of the Bank of Canada which becomes a debt of the government of Canada to the Bank of Canada, and money is created in that way and finds itself in the money stream—is that a fair understanding?—A. That is right.

Q. The deficiency of purchasing power is a deficiency on the part of certain individuals who have not got things they need, and presumably they can not get them today, because obviously there is no deficiency of purchasing power

if the people who need things are in a position to get them, both because the goods are available and second because they have the money to procure them. Is that fair?—A. Well, Mr. Fleming, I do not want to go along with you quite that far. Some people may have a surplus amount of purchasing power, and some people may have a deficiency of purchasing power, and I think in order to be able to estimate the situation properly you can only deal in totals or the accumulated amount of purchasing power or the accumulated amount of money in circulation, and the total requirements of people as a whole.

Q. That is the trouble with this—this is all in totals. Let me ask this, Mr. Maynard. How do you see to it that it is the people who are suffering from a deficiency of purchasing power who get the benefit, as you see it, of this increase in the money supply by reason of the infusion of some total into the total existing money stream?—A. Let me point out first of all that I do not visualize equalizing the incomes of everybody—that is Utopia. That is not visualized in our scheme. We visualize that we will still have people with more money than others but the first recommendation we make in the brief, in order to see to it that the people who require purchasing power the most will be in a position to get it, is that there be an increase—an immediate increase in dollars—to the old age pensioners and blind pensioners and so on. As indicated in the submission, the income of these people is on the low side. If these people were to obtain an increase in purchasing power there is no doubt that they would be able to buy more of the necessities of life than they are buying today. That in itself would use up some of the goods we now have produced, would stimulate production and would put the production machine in a position where it could keep on producing more goods for the purpose of the general economy of the country. That is the first place where we advocate that money should be put into circulation—into the hands of people who admittedly—I do not think anyone would be in a position to deny it—are in a position to use it and who need it.

Q. Am I right in saying you do it by direct government payment to those individuals?—A. Yes.

Q. It may be a simple enough matter to ascertain those on the old age pension and the family allowance and those in receipt of other direct fiscal government payments, but what about those who are in need of goods of one kind or another or who are suffering from a deficiency of purchasing power but who do not come in any of those well recognized categories? How do you propose to see to it that these increases in purchasing power which you expect to follow from the creation of new money are going to get into the hands of those who are not old age pensioners, who are not on the family allowance and yet who are—as you have described it—suffering from a deficiency of purchasing power?—A. Mr. Fleming, again might I point out it is not so much a question of dealing with individuals as with the situation as a whole. If I may illustrate that by going back a few years; during the depression we had a shortage of purchasing power and many people were on relief and there was a surplus production of goods that could not be distributed because people did not have money to buy them. At least, that is what we claim and what we have claimed all along. How was that situation handled? When the war developed we took 200,000 people all of whom were not on relief—some were on relief; some were unemployed; and some were in gainful employment—and they were put either in the armed services or in the production of war supplies.

Stephen Leacock in the article that is referred in my submission and which was referred to by Mr. Macdonnell on Tuesday points out that with that 200,000 people out of the production of consumer goods it was possible for the rest of the people employed to produce far more goods than we had ever enjoyed.

If I might use Mr. Leacock's words it might be just a little bit better because then they will not be challenged.

Think of it! With two million people absorbed in fighting and in contriving death (that others may live) the labour of the others still suffices to give to the mass of our people better food, better shelter, more of life than they ever had in peace. And we could have given it to them in depression years.

Instead of that, half a million people out of work in this country were told there was nothing in it to do.

That is the end of the quotation and I should like to point out that with that number of people out of the production of consumer goods but still receiving very steady purchasing power in the form of wages or salaries as soldiers or wages and salaries in the field of the production of war supplies, we were able to increase the total amount of purchasing power in the country to the extent that we had no further unemployment and we had no further shortage of goods. On the contrary we did have a shortage of goods to some extent because we were not producing sufficient consumer goods. That is the method by which we visualize that any amount of purchasing power which is put into circulation by the government beyond any deficiency that exists will operate in the future in the same manner as it did in the war by increasing the purchasing level of the people generally. You will have increased production providing more employment for people, and the people will be able to look after themselves instead of having to obtain relief directly from the government as was done during the depression days.

Q. May I suggest to you, without wishing to be in any way offensive, that you have not answered my question at all. I asked you how you would see to it that those who are in need of goods or, as you put it, are suffering from a deficiency of purchasing power might receive that purchasing power as a result of the infusion of money created simply by a bookkeeping entry on the books of the Bank of Canada. You indicated how you propose to see that the old age pensioners can get more purchasing power; but I was speaking of those who are suffering from a deficiency of purchasing power and who are not on the old age pension. And I suggest to you that the only way under this scheme of yours by which you can get increased purchasing power into their hands is to have regimentation in a way which I hope this country will never accept.—A. We had no regimentation during the war except for the people of the armed services, yet we had an increase in purchasing power during the war which resulted in enlarged business activity of the country and in reduced unemployment. If you have full employment otherwise than in the production of consumer goods, it may not be necessary to put into the economy more purchasing power in the manner advocated. You will have more people able to buy the goods than the country is then able to produce.

Q. You are putting that all on your condition that the country is productive and that the people are going to be working. If everybody is going to be working and employed at adequate wages then there will be more purchasing power and it will be adequately distributed. But that is just avoiding the question.—A. Might I point out one of the vital distinctions between what is advocated today by the officials of the Bank of Canada and what we advocate, because if I do, then perhaps you will better understand what we are trying to suggest.

In Mr. Towers' evidence on page 758 in answer to Mr. Macdonnell, in dealing with the ways and means of preventing the next depression, Mr. Towers said this:

(Mr. Towers) A. If the situation again came to resemble the 1935-1939 years, which, as one will recall, were years still of considerable unemployment, although business had recovered a fair amount from the 1931-1932 time, the central bank would, I am sure, see to it that the commercial banking system had very ample cash reserves. I should think it would then be probable that the banks would at least add to their holdings of securities of various kinds and in the process expand the amount of deposits in the country. It would be a situation in which those who wanted to borrow and had decent credit standing would be able to do so without any difficulty. . . .

That is the actual quotation from Mr. Towers' evidence and let me repeat the last statement:

It would be a situation in which those who wanted to borrow and had decent credit standing would be able to do so without any difficulty. . . .

Now, Mr. Fleming, the situation in Canada today is that we have a very serious situation in the farm machinery industry. The manufacturers of farm machinery have a supply or stock of farm machinery built up from one end of Canada to the other which they cannot sell. Would the chartered banks consider the credit worthiness of the farm implement industry sufficient today to provide them with the necessary loans to keep on manufacturing farm machinery which they cannot sell at the present time?

Or take the textile industry, as another instance. We have textile plants which are closed today because they are unable to dispose of their supplies. Would the chartered banks consider the textile industry sufficiently credit-worthy to make further loans to the textile industry for the purpose of producing more goods?

That is the crux of the question. The money that is put into circulation by the chartered banks today is put into circulation to increase production. It is not put into circulation for the purpose of financing consumption.

The great distinction we are making is that it is necessary that the supply of money put into circulation by the chartered banks to increase production be supplemented by some other money put into circulation for the purpose of enabling people to buy the goods which we can produce through the loans from the banking system.

Q. Let us take the case you mentioned, for instance, textiles. Do I understand that your solution for the problem of curtailed employment in the textile industry and curtailed demand for Canadian textile products is to increase through the resources you propose, namely the Bank of Canada, the total supply of money?—A. To meet any deficiency that exists in the country as a whole, yes, but not for the textile industry, particularly.

Q. How would you see to it that the additional money which you are creating by a bookkeeping entry in the Bank of Canada gets down to the point where it actually increases employment and the market in Canada for the products of the textile industry?—A. You must take the employment in the country as a whole.

Q. Because I suggest to you that all you would accomplish by that would be to inflate conditions in Canada and to raise local price levels in that way and make it more difficult than ever for Canadian producers of textiles and Canadian workmen to compete with production coming from abroad into our own Canadian markets.—A. Not at all. On the contrary, through the operation

of the subsidy principle set out in the brief, if it became necessary, that situation would be very well looked after. But even in that or any other situation, if people had more money today generally with which to buy our goods, that is the goods that are piling up today because of the lack of purchasing power, those goods would be disposed of. The people who are manufacturing the goods which they cannot sell would be in a position to dispose of them and to keep on manufacturing further goods.

Q. You have not yet shown how that additional money you are creating gets into the hands of people who want to buy Canadian textiles, and that they use that money to buy Canadian textiles rather than to buy textiles being imported from abroad? What is the use of making that money by a book-keeping entry in the Bank of Canada if it is going to fall into the hands of people who do not need Canadian textiles? I suggest you cannot do that without introducing into the Canadian economy a measure of outright regimentation which would be completely destructive of economic freedom in Canada.—

A. Let me state again that during the war we did not have regimentation to put everybody to work, yet we increased the purchasing power of the people of Canada, and during the war we did it in a manner which, under the circumstances was necessary. I would regret, however, that anyone would suggest that the only way to dispose of our surplus products was by putting the country into war, with the destruction of war. We can do it without war.

The CHAIRMAN: Who suggested that? It was not Mr. Fleming. There has been no suggestion here during the hearings that we have to put the country into war before we can dispose of our surplus production.

The WITNESS: It has not been suggested, Mr. Chairman; but with the situation which took place during the war when we experienced an increase in purchasing power throughout the country, we were able to increase our production, to eliminate unemployment and bring prosperity to Canada. I suggest that our proposals would increase the purchasing power of the country without the necessity of war, by increasing the general prosperity of Canada and utilizing fully Canadian employment. In so far as the textile industry is concerned, you mentioned that we would have to compete with foreign goods in the sale of our Canadian textiles. But we also have on the statute books of Canada regulations to protect Canadian industry against competition from abroad, if it is necessary.

By Mr. Fleming:

Q. It does not seem to be so effective for its intended purpose right now because you must be aware that it is foreign competition—we may not all agree here whether it be considered competition or dumping—that is putting Canadian textile mills into idleness and Canadian textile workers into the ranks of the unemployed?—A. It may not be effective at the moment but the means are there to make it so.

Q. Are you suggesting that foreign goods should be excluded so that Canadians might use this additional purchasing power to the full extent of their needs by buying only Canadian production rather than goods imported from abroad?—A. I suggest that by use of the principle of the subsidy you would be able to place Canadian-made goods, if necessary, on a basis where they could compete with foreign goods and Canadians would buy them.

Q. I am interested in your reference to a subsidy because I think you are referring to a production subsidy.

Mr. Low: Consumer subsidies.

By Mr. Fleming:

Q. Consumer subsidies? How are you going to calculate those consumer subsidies? Because in the committee on prices which met six years ago we were told by the man who was then responsible for the enforcement of controls and subsidies in Canada and who is now the Deputy Minister of Finance of this country that you cannot have subsidies without controls.—A. We have had a system of subsidies on Alberta coal coming into Ontario for many years. I do not know of any wage or other controls imposed on the subsidies paid out for Alberta coal.

Q. We were speaking of a general system of subsidies, not some particular function of moving something from one place to another. However, I will not labour the point because there is a limit on the time I can take in the committee. I take it that your answer to my question as to how you are going to get this additional purchasing power into the hands of those who are suffering a lack of purchasing power is to follow something which was followed during the war when we put on all kinds of pressures and controls.—A. No, without controls. And let me say this again: That by increasing the purchasing power of the country generally you will be increasing business activity in the country, and with increased business activity there will be resulting employment of more Canadians. The 500,000 unemployed which we have in Canada now will be able to be absorbed into gainful employment.

Q. May I say this to you without any personal offence: You are just going around in circles and repeating the same old things, that if you increase the purchasing power of the country, certain things follow. But I am interested in finding out just how you create an increased purchasing power by the creation of money by a bookkeeping entry on the records of the Bank of Canada, and that, I may say, you have not made clear.

The CHAIRMAN: I ask one question. I understood you to say that there was no regimentation during the war except in the services?

The WITNESS: Well, I must correct that, if I said that. There were price controls.

The CHAIRMAN: Yes, price controls, wage controls, and control on the movement of people.

Mr. FLEMING: And controls of employment.

The CHAIRMAN: Subject to those very slight limitations the answer is unchanged.

By Mr. Tucker:

Q. I wonder if Mr. Maynard would suggest other controls which could be put on but which were not put on?

A. None other were necessary.

Q. Can you think of any other controls that were not put on but which might have been put on?

By Mr. Fleming:

Q. I shall try to be brief. This matter of the creation of interest-free money is a pretty simple process, is it not?—A. It is simple.

Q. Merely a bookkeeping entry in the records of the Bank of Canada?—A. That is right.

Q. In fact, in that way you are creating money out of nothing, just by the stroke of a pen.—A. That is right.

Q. I was interested in hearing your reference today and on Tuesday to the social security payments, as set forth at page 101 of your brief where you propose an immediate increase in the old age pension and other social security payments of 50 per cent. That is your proposal?—A. That is right.

Q. Now would it not be just as easy to make it 60 per cent as 50?—A. The figure you use is easy to say but in actual practice the amount of increase which is put into circulation through that means would depend pretty well on the amount of the shortage of purchasing power that exists in the country. If you were to double, for instance, immediately the social security payments that are now made it would require an additional \$900 million put into circulation. I am not in a position at the present time to know the amount of deficiency of purchasing power that exists in the country.

Q. Who does know, then?—A. At the present time?

Q. Yes.—A. I do not know if the Bank of Canada officials have made a survey of the situation, but they are the proper ones to ascertain it.

Q. You think that the Bank of Canada officials are capable of calculating the total deficiency of purchasing power of all Canadians in Canada today? I think that ascribes to some quite worthy people, powers that are not possessed as yet by any born human.—A. Now, Mr. Fleming, that brings us down to the question of the survey which was discussed on Tuesday and I would like to discuss it now because it has a bearing on the very point you are trying to elaborate at the present time. I indicated on Tuesday that there was such a survey of the physical assets made in the United States by Harold Loeb and his committee, and you asked who Harold Loeb was.

Q. I did not ask you that.—A. Well, Mr. Macdonnell asked me that. I have with me "The Chart of Plenty", a book entitled "The Chart of Plenty" that was prepared by Harold Loeb and a group of engineers and industrialists and so on. It is the official report of the National Survey of Potential Product Capacity which has been prepared for publication under the auspices of the New York Housing Authority.

Mr. PHILPOTT: Will you please put the name of the publisher on the record?

The WITNESS: The publisher is the Viking Press, New York, 1935, and it is "A study of America's product capacity based on the findings of the national survey of potential product capacity" by Harold Loeb, Director of the N.S.P.P.C. and associates, Felix Fraser, Graham Montgomery, Montgomery Schuyler, Walter Polakov and William Smith with a foreword by Stuart Chase. It was printed, as I said, in 1935. Now, I am not going to read the book, but I am going to read you one or two paragraphs from Stuart Chase's foreword because it gives you the whole purport of the book.

Mr. FLEMING: I have no objection to Mr. Maynard giving this in response to Mr. Macdonnell's question, but it is not in answer to my question, and I do hope it will not be deducted from my allotment of time.

The CHAIRMAN: Please proceed.

The WITNESS:

The various engineers and economists referred to above have not made their estimates within the commercial frame. They have been careful to cleave to the physical. They have looked at the land, the natural resources, the manpower, the industrial and agricultural plant, and above all the technical arts of a given community, and have tried to estimate how much that community could produce in the way of enjoyable commodities if all factors were employed at something approaching maximum efficiency; if the manpower were fully engaged, if the plant operated at capacity.

A little further on—

After almost a year of research by sixty technicians, financed by the federal government, the National Survey of Potential Product Capacity has released its findings.

Now, in the course of the book reference is made not only to the production capacity of the United States but also to the consumption capacity of the United States and at page 78 we find this:

At present, production is curtailed to meet a grossly inadequate buying power. An efficiently managed society would consciously and scientifically adjust its economic mechanisms so that buying power would always command full desirable production.

And in the conclusion at page 161 we find this statement:

Since the present economic system has no means of distributing goods and services in excess of an amount which provides little more than subsistence for those possessing no property income, either the present system of rewarding labor must be discarded, or the plant and personnel must be operated at two-thirds' speed, or one-third unneeded productivity must be diverted into waging war, preparing for war, or some new large-scale speculative undertaking whose nature has not yet been envisaged.

This is the dilemma of society as exposed by the study of the National Survey of Potential Product Capacity.

It would seem that the simple and obvious way out, that of giving a buying power adequate to procure desired goods and services to the limit of our ability to produce them, might well be tried. It is simple in principle but has not been attempted.

The result of the book is to point out that under the basis of 1929 prices it would be possible to provide every American citizen with \$4,400 a year.

The CHAIRMAN: Have you any more questions, Mr. Fleming?

Mr. FLEMING: Yes, that had nothing to do with my question.

The WITNESS: I come now to your question how can the Bank of Canada determine the amount of deficiency of purchasing power in Canada. The Dominion Bureau of Statistics can make a survey of the physical assets of Canada and the physical requirements or the physical wants of the people in Canada.

Mr. FLEMING: Give them five years!

The WITNESS: It took these people a year to make a survey in the United States.

By Mr. Fleming:

Q. Mr. Maynard, let us be realistic. Are you suggesting these people made a comprehensive survey of the whole of the United States to determine the physical assets and potential purchasing power of all the people in the United States as well as their potential consumption capacity? That does not strike me as being reasonable—A. Well, Mr. Fleming, it is in the book.

Mr. FRASER: Don't believe everything you read!

The WITNESS: I said I was not going to read the book, but I will give you some of the items that are referred to in the tables and charts in the contents of the book.

By Mr. Fleming:

Q. I take it, without trying to curtail your reading of this interesting assemblage of words from this book, that you have no personal knowledge of the extent to which any survey was attempted in the United States by this group or any other on all the needs and all the deficiencies of purchasing power of the Americans?—A. Mr. Fleming, this is one survey that has made a pretty serious attempt—

Q. Excuse me, but I asked you about your own personal knowledge.—A. I only know what I have gathered from a perusal of the book. I was not in any committee making the survey.

Q. This one book is the source of all the information you possess?—A. No. Stuart Chase was appointed by the Twentieth Century Fund to make this survey after the war. He has published his findings in a series of seven books which I recommend to you, Mr. Fleming, because they are very good. In the course of his books he comes to the same conclusion as this particular committee, that there should be no difficulty by increasing the purchasing power of the people of the United States in being able to provide a high standard of living for every American citizen.

Q. Which takes us around in a circle again!

The CHAIRMAN: Gentlemen, just a word of caution. Mr. Fleming is asking the questions and Mr. Maynard is giving the answers. We rely on the knowledge and information which you have, Mr. Maynard, rather than on outside authorities which could be quoted for days on end.

By Mr. Fleming:

Q. Is there a condition of inflation in Canada today?—A. No, you have a surplus of goods.

Q. Is there a condition of a deficiency of purchasing power in Canada today?—A. Yes.

Q. And you hope to meet that deficiency of purchasing power in part by an increase to social security payments?—A. Yes.

Q. Then, why do you propose to limit the increase to 50 per cent? If I had the power to increase purchasing power in Canada today, particularly for those who need goods, simply by a bookkeeping entry in the Bank of Canada and it could be done without any deleterious effect on the economy of Canada, frankly I would feel like a piker in stopping at 50 per cent?—A. Actually, so do I, but until we know the needs that will arise—despite some of the headlines in the paper—it should be increased gradually for the purpose of fighting inflation.

Q. Are you afraid of inflation?—A. Yes, inflation is not good for the economy of the country and neither is deflation.

Q. Why are you afraid of inflation?—A. Because it is not good for the economy of the country.

Q. What is inflation?—A. It is a situation that develops where you have a surplus amount of purchasing power and rising prices for goods.

Q. Do you subscribe to the definition: "Too many dollars chasing too few goods?"—A. You have to look after the price factor as well. You have the two situations—the surplus money and the rising price of goods.

Q. But you say there is a deficiency of purchasing power in Canada today?—A. Yes.

Q. And you are going to help meet the deficiency in purchasing power and contribute to the economic well-being of Canada by increasing purchasing power through the medium of increasing the social security payments.—A. Yes.

Q. I am still waiting to hear why you picked on 50 per cent and stopped there?

Mr. Low: Please do not let us have police court methods—these too obvious police court methods!

The WITNESS: I am sorry if you think I am going around in circles, Mr. Fleming, but you are repeating the same questions, and I can only give you the same answers. Until we have the amount of the deficiency in purchasing power you cannot say that social security should be doubled or trebled or anything else. We are using a 50 per cent increase because in our opinion there is no doubt at all that that would represent less than the amount of purchasing power in circulation, but along with this increase in social service benefits we visualize a survey being made to ascertain the actual deficiency, or approximate deficiency of purchasing power for the purpose of being able to ascertain the amount of purchasing power to be put into circulation either by increased social service benefits proposed or by some of the other means provided by the brief.

By Mr. Fleming:

Q. That takes us back to the necessity for a decision on the part of some governmental authority, presumably the Bank of Canada. At some particular moment there is presumably a surplus of purchasing power resulting in inflation?—A. Yes.

Q. And the next step, if I understand your brief, is to syphon off “the redundant purchasing power?”—A. We do that only after purchasing power has been put into circulation and through some miscalculation too much has been put out. That is the only time we syphon off redundant purchasing power.

Q. How do you syphon it off?—A. You can cancel your subsidies or do it by taxation.

Q. You do not exclude taxation as one of your normal fiscal procedures?—A. No.

Q. The matter of taxes and public debt are things which interest us a good deal around here. You have drawn attention to the ease with which money can be created by bookkeeping entries in the Bank of Canada. If that can be done with such ease and with such evidently good results in increasing purchasing power, why would any government be justified in continuing to levy taxes or to incur public debt?—A. That is a question you will have to ask Mr. Abbott. I cannot see the justification for it.

Q. I would be interested to have your answer if you care to answer it?

The CHAIRMAN: The answer is that he sees no justification for taxation.

The WITNESS: No, not taxation, public debt. Taxation, as I indicated, may be necessary. I indicated in the submission that we do not advocate elimination of all taxation. In so far as public debt is concerned, I cannot see any justification for the Canadian government borrowing from the chartered banks, paying interest to the chartered banks, and taxing the people to pay that interest when the government of Canada has the Bank of Canada and the machinery to borrow the necessary funds required. I would like to put one exception to that. It may be necessary in the case of war to borrow from the people to prevent inflation and avoid surplus purchasing power when goods are not available.

By Mr. Fleming:

Q. Now, let us get away from what you refer to as the government borrowing from the banks. Let us take the case where the government borrows from the people. Let us take these various savings campaigns—do you object to having the government borrow from the people?—A. I indicated, just before

you asked the question, that was the one exception I made—if there was too much purchasing power, in relation to the goods available it may be necessary for the government to syphon off by borrowing from the people.

Q. You said there is no inflation today as there is a deficiency in purchasing power. The government is going to borrow a good deal of money this year in connection with some refunding. Do you see any justification for the government wanting new loans under the present circumstances or do you propose that all government bonds which are being called or maturing should be paid off by the creation of money by a bookkeeping entry in the Bank of Canada in the way mentioned?—A. No, if you recall the part of the submission which deals with the payment of public debt, I suggest a gradual payment for that purpose. I do not suggest the payment of public debt all at once or the creation of money for that purpose by the Bank of Canada.

Q. I do not know the exact figures, but let us say at the present time there is a \$1 billion of public refunding going on—or to take a smaller figure—\$500 million—in the form of maturities or refunding today. Should that be paid off by the means of the creation of money in the way you have indicated by a bookkeeping entry in the Bank of Canada?—A. Mr. Fleming, I say it is possible. Whether it is desirable at this time, I do not know, because I am not in a position to know the amount of deficiency of purchasing power in the country. When the Canadian government pays off \$500 million—the figure you used—it pays off public debt to that extent. This is putting money into circulation in the economy of the country, that is, purchasing power that is available for the people to buy the goods that are produced. If that \$500 million does not represent a surplus of purchasing power in relation to the goods that are available, then the government should do so, that is, pay off the public debt to that extent; but if that \$500 million is going to leave a surplus amount of money in circulation in relation to the goods that are available, then the government should not do so.

Q. Mr. Maynard, you have said there is a deficiency of purchasing power today?—A. Yes.

Q. I take it that you will not commit yourself to the amount of the deficiency?—A. I do not know what it is.

Q. That is the reason you do not commit yourself in respect to this matter of the refunding or maturity of public debt—to the extent to which there is a deficiency to be ascertained by the Dominion Bureau of Statistics and the Bank of Canada, a deficiency of purchasing power today, you say that deficiency should be supplied by paying off these maturing or refunded bonds through the means of money created by the Bank of Canada by a bookkeeping entry?—A. I did not say “should”—I said “could”.

Q. Would you recommend it then? Is it part of the program that you have laid before this committee, that it should be paid off by money so created?—A. In proposal No. 3, Mr. Fleming, I have outlined five ways in which this amount of purchasing power—if it is required to meet any deficiency—can be put into circulation. One of the means is by the gradual retirement of the public debt. What the government should do with a \$1 billion shortage of purchasing power is a matter that will have to be decided in the light of the circumstances that exist when it occurs. In the event of a \$1 billion shortage it could either double the payment of the social service benefits to use up the \$1 billion, or it could simply increase the social service benefits by \$450 million and use the balance to pay off part of the public debt, or it could put the \$500 million into circulation by one of the other three means suggested in the proposal.

The CHAIRMAN: Mr. Fleming, are you nearly finished?

Mr. FLEMING: I will conclude, Mr. Chairman.

The CHAIRMAN: You are discussing degree, not principle.

By Mr. Fleming:

Q. I think if I understand Mr. Maynard rightly he was saying without committing himself as to amount, but on the principle it is a proper use to make of this money creating power through the Bank of Canada to use it to pay off Canadian bond holders—holders of bonds of this country?—A. That is right.

Mr. APPLEWAITE: Are not the bonds themselves purchasing power?

13 The WITNESS: When the Canadian people bought the bonds with money it was that much money withdrawn from active circulation in the economy of the country. The bonds can be used as purchasing power by selling the bonds or hypothecating with the bank and using the money as purchasing power.

By Mr. Fleming:

Q. At the conclusion of my questions on Tuesday, I asked you to explain why it was you kept saying that debt can only be paid off at the expense of others. You told me the answer was to be found at pages 33 and 34 of your brief. I can assure you I have read the pages carefully more than once, and I did not find there the answer to my question. I found there an interesting reference to the details of a poker game which I followed with some degree of interest. The Social Credit poker game was beyond my depth, I am afraid. I have only this to say: If you have any explanation to make of it you should have the opportunity of doing so, and as far as it bears on this question it seems to me completely to overlook the earning power of money in a free economy.—A. Mr. Chairman, I cannot for the life of me understand how it is conceivable for an economy or a community—and the illustration of the community is the second one I give in the submission—to possibly pay back more than it receives. If the community is going to receive by way of loans just a few thousand dollars that is all the community can pay back, and of course when you talk about earning power of the community that presupposes the community will be able to sell its production for the purpose of obtaining part of the money to pay the interest on the loan it has received. But as I pointed out, every community—every country in the world—is trying to do exactly the same thing, and where you have the money of various nations of the world put into circulation as a debt on which interest has to be paid it is impossible to pay back to the banking institutions more than they have put out in loans and that is why interest results in an accumulation of debt. The only way you can pay interest as a whole is to borrow more money to do so or to default or repudiate or through depreciation of the currency.

Q. Then, when you say that debt can only be paid off at the expense of others, you are coming back again to this statement that you reiterated that all the debts cannot be paid off at any one moment of time because there are too many of them?—A. It is not necessarily because there are too many of them; it is because of the interest that is required to be paid. If there is only ten thousand dollars in circulation in a community on which you are required to pay a thousand dollars in interest charges that is \$11,000 you have to pay back. If all you have in circulation in the community is \$10,000 that is all you can pay back unless you borrow \$1,000 from, or sell goods to, another community for the purpose of securing from it the \$1,000 required to pay the interest charges. But the other community is in the same position. It is trying to sell its goods to the first community to obtain the funds necessary to enable it to pay interest on its own loan.

Q. Mr. Maynard, I hope you will not think this question is personal in any sense because it is not. I ask it for my own information because you have been passing opinions on banking operations. May I ask you what experience, if any, you have had in the business of banking?—A. As a borrower from the bank; that is the limit of my experience.

Q. Have any of the other members of the government of which you are a distinguished member had any experience in banking?—A. We operate a bank in Alberta, Mr. Fleming, which is operated as a treasury branch. We are limited to some extent because we have not all the privileges which the chartered banks enjoy, but we have branches throughout the province of Alberta.

Q. I was asking about the members of the government of which you are a member.—A. The government is operating a bank and I am a member of the government. As such, I have some experience with the treasury branches. The government is responsible for the policies that are made.

Q. Perhaps I should ask if they have had any experience in chartered banking in Canada?—A. No. The bank operates in every respect as a chartered bank except we have not the privileges of the chartered banks. We have been denied them twice when we applied to parliament.

Q. Does that bank make commercial loans?—A. Yes.

Q. And are they interest-free?—A. No, they bear interest. They operate the same as chartered banks.

Mr. FLEMING: May I say I apologize for the length of time I have taken. I can assure you, Mr. Maynard, notwithstanding these muttered interjections of Mr. Low, there was nothing personal or unfriendly in what I have asked. I think my questions have been designed to get at the meat of the brief submitted by Mr. Maynard and in an endeavour to understand just what is involved in the program he laid before the committee on Thursday.

The CHAIRMAN: I have a very long list. Mr. Fleming must have asked many of the questions which were in your minds. I will ask Mr. Cameron to proceed and to restrict himself to fifteen minutes.

Mr. CAMERON: If I can do it in fifteen minutes; I may require more time.

By Mr. Cameron:

Q. I was very interested in your brief which I read last night and I am particularly interested in your opinion with regard to the deficiency of purchasing power in our economy at the present time. Could you give me any idea as to when you think that deficiency first made itself evident?—A. Well, Mr. Cameron, that is rather difficult to try to pin down—any particular day in the week or week in the year—I wouldn't like to say—in fact, I could not do so.

Q. I was not asking for anything as fine as that. Could you pin it down to a year? What year did it first appear?—A. No, Mr. Cameron. I am sorry, I have not made a survey for the purpose of ascertaining when the situation started developing.

Q. I was rather interested in it because, as perhaps you know, some of us here have been attempting—not with any great success, I will admit—to get Mr. Graham Towers to admit that the operations of the Bank of Canada have had a very inflationary effect on our economy and increased our total money supply. You see, the Dominion Bureau of Statistics, on which I think you are relying for the information you want, tells us this, that in 1945 our gross national product measured in constant dollars was \$9,350,000,000, and in 1950, again in constant dollars, it was \$10,330,000,000, and here is the interesting point: In 1945 our total money supply was \$5,905,000,000 whereas it jumped up to \$8,712,000,000 in 1950, which does not seem to indicate a shortage of purchasing power?—A. Mr. Cameron, the amount of money in the economy is meaningless unless we relate it to the amount of goods in the country.

Q. But it was related to the gross national product?—A. You will have to relate it to the actual amount of goods in the country. Might I also point out that the Dominion Bureau of Statistics in the past week has indicated there

is a retail sales slump in the country of 2.1 per cent for the first two months of this year as compared to the first two months of last year and this in spite of the fact we have been told this week by headlines in the paper that the retail sales have recorded the largest amount of credit sales in its history—\$1,800,000,000.

Q. I am not disputing that there may not be a shortage of purchasing power in the country, but if I understand your brief and evidence and thinking correctly you consider this shortage of purchasing power is the result of our present method of creating credit by the government or the Bank of Canada and the chartered banks combined operations?—A. Well, Mr. Cameron, generally speaking, yes, because even the creation of credit by the Bank of Canada is in the form of cash reserves which enable the chartered banks to expand bank credit.

Q. What effect does that have on creating a deficiency of purchasing power?—A. It does not supply the amount of purchasing power required to finance the consumption of goods, the production of which is made possible by the expansion of credit by the chartered banks—let me put it to you this way: In referring again to Mr. Towers' statement in reply to Mr. Macdonnell when Mr. Towers indicated that if another depression came along he would see to it that the chartered banks had the necessary cash reserves for the purpose of expanding credit still more. Let me read the final statement again:

It would be a situation in which those who wanted to borrow and had decent credit standing would be able to do so without any difficulty.

There is no problem about financing production today. That problem is solved. The banking facilities which we have are fully adequate to finance the production requirements of the country, but those banking facilities are not adequate to enable us to finance the consumption of the goods produced.

Now the banking industry cannot put into circulation by way of expansion of credit, or any other means, the money required to finance consumption because their whole business consists in making loans and charging interest on loans. That is their profit and it is proper for them to do so. But you cannot expect the banking institutions to put into circulation the amount of money required, interest-free, to finance consumption.

Q. I am not concerned about the interest-free angle at the moment. I will return to that later. However, I cannot understand it when you suggest to me that when the banks make a loan they are not infusing purchasing power into the country.—A. They are, but they are not putting out the amount of money that is required to enable the people who consume the goods the production of which is made possible by the banks' loans to produce such consumer goods.

Q. Why don't they?—A. There are different explanations advanced for that. One is the fact that there is a diversion of money put into circulation by the banks in the course of the production of goods, for savings, reinvestments, and for profits. I eliminate profits, leaving savings and reinvestment.

If you eliminate the money that is so diverted from the economy of the country then you have not as much money remaining for the purpose of buying the goods that have been produced by the money put into circulation for that purpose.

Q. I understand you to say that in your consideration, for the moment, you eliminated the element of profit.—A. That constitutes purchasing power.

Q. You are now basing your contention that the shortage of purchasing power is caused by our savings and reinvestments?—A. If you look at the brief you will see that I mention three or four illustrations as to why, and this may be one of them.

Q. Do you agree that is so? That is what your opinion is?—A. I accept that as being one of the reasons, yes.

Q. Would you mind explaining to us how it is possible for a reinvestment program to be carried out without the diversion of purchasing power?—A. It does result in purchasing power but at a different time lag; the reinvestment of funds does bring about the production of additional goods, but it also results in a deficiency of purchasing power being in circulation for the distribution of goods produced by these investments. To repeat: when you carry on that cycle to the end you again have profits, wages and salaries put into circulation; but you have again withdrawn as purchasing power for those goods the amount necessary for the interest payments, for savings, for depreciation, and for reinvestment.

Q. Well, on page 65 of your brief you have something to say about one of the financial problems of distribution, and you say that one of the inherent disadvantages of our modern system of industrial costing methods is that the retail merchants must of necessity charge more for the merchandise which they sell than has been distributed by means of salaries, wages, and payments in the course of producing and distributing that same merchandise. I presume that is merely a rather elaborate way of saying that merchants have to add their profit to the price.—A. One of the things; it is not only the profits; they also add their savings to the price.

Q. You mean their costs?—A. Yes.

Q. What are the highly technical reasons for which retail merchants are obliged not to distribute or to charge more for the merchandise than has been distributed by wages and salaries in its production? It seems very simple and not a very highly technical thing?—A. On page 56 you will find Major Douglas' explanation in his A plus B Theorem.

Q. I know.—A. And I also give you the explanation offered by Hattersley. Major Douglas' explanation is on page 56, I am sorry, page 66.

Q. I read this when you were probably a very small boy, over 30 years ago. I admit that I was not able to make head or tail out of it then and, of course, I have not improved in intelligence since that time, and I am still unable to understand it.—A. I am not asking you to accept it.

The CHAIRMAN: That was covered by Mr. Philpott.

By Mr. Cameron (Nanaimo):

Q. Very well I shall leave that one. Now, on page 77 of your brief you have this to say:

First, the physical inability of the present financial system to distribute purchasing power by means of wages and salaries in sufficient amounts to buy our total production.

What does that mean?—A. Just what it says.

Q. I look around this room and I see representatives of our financial system and they look to be pretty healthy specimens to me; they look to be physically capable of distributing it. Just what does it mean?—A. It simply means that the financial system is not able to put into circulation sufficient purchasing power in the method in which it is operating today for the purpose of enabling people to buy all the goods that are produced with the money put into circulation for the production of those goods.

Q. You do not mean physical inability at all?—A. If you take physical in that sense.

Q. There is only one sense in which to take "physical" that I know of.—A. I was not referring to the physical disability of the men conducting the banking system.

Q. Let us turn to this business of the distribution of more purchasing power to make up for the deficiency which you mentioned earlier this morning, and that there were certain people with surplus purchasing power.—A. That is right.

Q. What do you propose to do about that?—A. Nothing particularly except that when we reach a stage where you have redundant purchasing power in circulation, that is, when you go through the various methods explained in the brief and put into circulation more purchasing power than you have goods available, then, through the process of taxation you have to withdraw that surplus amount of purchasing power in circulation. That is the way it is done. The surplus amount will be withdrawn through income tax, paying back the surplus purchasing power that exists.

Q. I thought you were speaking here of individuals, not of the economy as a whole; not of redundant purchasing power in the economy as a whole, but of certain individuals who have surplus purchasing power. How would you define that surplus purchasing power?—A. It is common knowledge that we have millionaires in the country today and people who have pretty low incomes as well.

Q. I want to know what you are going to do about them?—A. I suggest first of all that we retain the taxation system for the purpose of eliminating from the system the amount of purchasing power that may be found to be surplus to the requirements of the people; it will undoubtedly come from those who have far more than others.

Q. I think it could be a pretty good idea but could you not explain it a little more clearly? Are you suggesting that we have a definite limit on income?—A. No, not any more than we have today because income tax and succession duties will look after it as they are looking after it now.

Q. But we will still have millionaires?—A. Oh yes, we will still have millionaires with a social credit administration.

Q. You told me that millionaires were an example of people with surplus purchasing power.—A. Not by way of cancelling their millions, no. I gave them as an illustration of the class of people who were paying income tax for the purpose of withdrawing from circulation any surplus purchasing power that might exist.

Q. You are not going to alter the present distribution of wealth to a measurable degree?—A. Oh no.

Q. You are still going to have people with surplus purchasing power?—A. You are still going to have millionaires.

The CHAIRMAN: That makes us all happy.

By Mr. Cameron (Nanaimo):

Q. Now, Mr. Maynard, you suggest that in order to overcome this situation, part of which includes people with surplus purchasing power, and in order to overcome that you are going to have an extra issue of purchasing power via the Bank of Canada. I presume the money would be made available to the government for distribution for social services. Would you agree that that means that the ratio between the physical volume of goods in our economy to the total money supply is going to be altered?—A. The ratio between the physical volume of goods and the total money supply?

Q. Yes.—A. Yes.

Q. What yardstick are you going to use for altering it?—A. As I indicated before, that is the responsibility of the survey for the purpose of ascertaining the production facilities or the production requirements of the country, and that will gear the productive requirements to the monetary requirements.

Q. I recall that yesterday you were unable to agree with Mr. Stewart when he suggested that in the production of every unit of real wealth there was distribution somewhere in the economy of an equivalent in money, in monetary terms?—A. That is right, I was not able to agree with it.

Q. You say you would not be able to agree with it?—A. No.

Q. I will not take you through there again. Perhaps Mr. Stewart may want to take you that way himself again. But I was not able to understand your objection. However, unless you agree, then there is no use in my asking you my next question in regard to certain aspects of your proposal No. 3. Let me turn now to some other matters in those proposals. First of all, in your proposal No. 2 I am a little puzzled as to whether or not in your second paragraph, in your proposal No. 2 on page 86, the Bank of Canada Act is to be amended to enable it to advance to the chartered banks such cash reserves as are necessary to enable the chartered banks to comply with those requirements and at the same time to extend loans to whatever extent is necessary to insure the progressive development of the national economy. Do you envisage that those loans will be interest-free loans?—A. No. Mr. Cameron. Those loans would be made by the banking system on the same basis as they they are making loans today. They will be interest-bearing loans.

Q. There is no question of debt-free money in this one, or interest-free money?—A. No; there is no question of debt-free or interest-free money issued by the chartered banks at any time.

Q. Then, Mr. Maynard, let me ask you this: If that is the case, these are to be ordinary interest-bearing loans, but no I will leave that one. Now, in your proposal No. 3, you have proposal (b) "For the gradual retirement of the public debt." Now, I am not for a moment questioning the possible value of such a policy but I am just wondering what your views are on its implications. First of all, would you agree that your proposal means that eventually over a period of years our large structure of government bonded indebtedness will be eliminated?—A. Yes.

Q. That would mean, for instance, that such institutions as the life insurance companies would no longer have that field of investment for their funds?—A. They would, but not in the bonds of the Canadian government.

Q. I see. That would mean, for instance, that the chartered banks would have to find some entirely different field for their investments?—A. That is right.

Q. Where would you suggest that the insurance companies might find investments for the funds that they have? What is it, 60 per cent?—A. They could do worse than going to the Province of Alberta; they could invest in provincial bonds, provincial securities, municipal securities, school debentures, industrial bonds, and particularly in industrial bonds.

The CHAIRMAN: Would not the public debt include the debt of the provinces and the municipalities? Isn't that your meaning of the words "public debt"?

Mr. CAMERON (Nanaimo): That is just changing the debt from one place to another.

The CHAIRMAN: Don't you include in your public debt the debts of the provincial governments and the municipal governments?

The WITNESS: Not in the recommendation made in this submission. Here we are dealing with the national debt of Canada because the provinces have not at their disposal a central bank from which they can obtain the funds that they require.

The CHAIRMAN: That would mean gradual retirement of the national debt.

The WITNESS: Yes. We refer to the public debt of Canada.

The CHAIRMAN: Very well, just so long as we are clear on that.

By Mr. Cameron (Nanaimo):

Q. What you are proposing is to replace the national debt with a series of provincial and municipal debts?—A. Not necessarily replacing them, because after all the provinces can get along without borrowing. And that brings us

to the very interesting point that I developed in the submission to some extent about the value of a public debt. There are some people who believe that a national debt is necessary for the purpose of providing a field of investment for insurance companies, trust companies, banks and so on. But the only way a country can have a national debt on that basis—

Q. I am not asking questions about the national debt. I want to find out what your idea is.

The CHAIRMAN: Mr. Maynard covered that in his brief. You have had half an hour already.

By Mr. Cameron (Nanaimo):

Q. Just a moment. You have referred to the wartime economy and have suggested that it might have some lessons for us in the present or future deflationary period. Is that correct?—A. Yes.

Q. I am inclined to agree with you, but would you tell us what you consider was the fundamental characteristic of the wartime economy that differentiates it from our peacetime economy?—A. Yes, if I can again refer to this article of Mr. Leacock's. I am not going to read it. You will find it in Stephen Leacock's article. In short it meant that by employing a certain number of men we were able to produce sufficient goods and commodities for the whole population of Canada. That is the first point. Secondly, by providing people who were not employed in the production of commodities with purchasing power, we were able to consume all the consumer goods that had been produced by a smaller group of people. Now we come to the question of controls. There were controls that were characteristic of the wartime period, but the reason for such controls was the large expansion of purchasing power given to those who were not employed in the production of consumer goods. I am suggesting that the lesson is right there: that by providing purchasing power to those who are not employed in the production of consumer goods we will enable the people to enjoy all the consumer goods we are able to produce. By limiting the amount of purchasing power to the extent that is necessary only to enable us to consume the goods that we are able to produce you do not require the controls that were imposed in wartime.

The CHAIRMAN: Mr. Cameron, the question was: What were the fundamental characteristics of the wartime economy?

Mr. CAMERON (*Nanaimo*): What was the fundamental characteristics that distinguishes it from our present peacetime economy?

The CHAIRMAN: Yes, and he has answered you. Are you satisfied with his answer?

By Mr. Cameron (Nanaimo):

Q. No.—A. An increased amount of money was available to the people who were not employed in the production of consumer goods.

Q. Do you not consider that the most significant or important feature of the wartime economy was that the government was faced with enormous expenditures and investments on the production of war materials?—A. That was the means used for the purpose of increasing the purchasing power of the people.

Q. Are you not trying to put the cart before the horse?—A. No. I am sorry; one is the method, while the other is the principle. I am trying to suggest the principle. That is what you are asking me for.

Q. I cannot speak with authority for the government, but I would doubt very much if the principle they were following was to distribute purchasing power. I think the principle was one of getting production of goods.—A. That was the result of it. They put into circulation purchasing power in such vast quantities that it was possible for the people who obtained that purchasing

power, without being employed in the field of production of consumer goods, to use the goods that had been produced by the remaining people who were employed in that field.

Q. Would you not agree that the government was also the chief producer of goods in Canada at that time?—A. Taking the government on one side and the rest of the people on the other side?

Q. Yes.—A. I would have to see the figures, I do not know. But if you have the figures, I would be prepared to accept them.

Q. It seems obvious to me that all our wartime production was brought by the people of Canada through the Government of Canada. They constituted not only the productive forces, but they also constituted the major consuming forces, did they not?—A. I do not know what the figures would be.

Q. Well, the point I want to get at is this: You apparently consider that there is some place, some mysterious spot in the economy where the purchasing power disappears in the process of production. Now you have, on the other hand, mentioned once or twice in your brief the fact that you recognize it is the inability of our particular type of economy to distribute enough purchasing power in the shape of wages to keep the economy functioning. Would you agree with me that the thing to be considered is the level of investment, or the ratio between the savings and the consumption of consumer goods?—A. Those are important factors, but if you say "really important factors", no; they are important factors, that is true.

Q. What other factors are there?—A. The main factor is the amount of purchasing power. I must seem to be going around in circles, but you are leading me to the point. The important factor is the amount of purchasing power required to enable the people to consume the goods which investment—or the production of such investment will make possible—

The CHAIRMAN: Suppose you just think about that answer for a while, Mr. Cameron. Now, Mr. Crestohl.

By Mr. Crestohl:

Q. Mr. Maynard, I should like personally to commend you for having presented to us a very painstaking brief on this subject, which is very interesting. Now you will recall that when you were questioned on Tuesday you made some statement to this effect: That this system is not without some imperfections. Being so familiar with it, what would you point out to us as being imperfections in the system? We are anxious to know, and we think that you are perhaps the best authority to point them out to us, or are there no imperfections?—A. Mr. Crestohl, I have dealt with two of them at great length in the submission. One is the interest-bearing feature of our system whereby all money put into circulation by the chartered banks is put into circulation as a debt.

Q. I am not speaking about the imperfections in our system but the imperfections in your system.

Mr. NOSEWORTHY: There are not any!

By Mr. Crestohl:

Q. Is your proposal perfect? Is it without imperfections? Is it a Utopia, in your judgment? I would appreciate it, if you know of any imperfections, if you would point them out to us, because we would like to discuss them.—A. I would be the last one to suggest that these proposals would constitute a cure-all for our economy. I did suggest in the conclusion of the brief that we were facing three alternatives: one is to carry on with the system we have now; and I suggest to you that what we have now is not good enough. The second is nationalization, and I suggest that that is not an efficient remedy; and the third one of our proposals which we have before us and the solution suggested is that

if there were any other proposals to remedy the situation so that we do not have from time to time booms and depressions, we would be prepared to support them, but we do not know what they are.

Q. Let us try to move away from pure theory. Can you quote any illustration to the members of the committee where this system of economy was practised in any other country in the world?—A. No, I cannot.

Q. Would you suggest that we should make Canada a guinea-pig on which to try it out?—A. I do not care whether it is practised anywhere in the world or not. We have a problem and whether or not the rest of the world is prepared to deal with a similar problem in another country is no reason why we should not deal with it here in Canada. We have 500,000 people unemployed in Canada at the present time and if we wait for some other country to devise some ways and means, that is not going to help our situation very much. Not only have we 500,000 people unemployed in Canada at the present time, but we have a surplus amount of goods in Canada at the present time of which we cannot dispose under the system which we have today. I suggest we ought to have a different system and ought to find out if it will be a better one than the system we have.

Q. That condition which you describe has occurred in other countries as far back as man can remember, where there has been unemployment, and the very same problems; yet they have not blundered into the system which you suggest.—A. With all due deference, I think you are wrong. We used to have in the world an age of scarcity where everybody was at work for the purpose of trying to produce sufficient to live on, and in those days, everybody worked. But we have progressed from that age of scarcity to a machine age wherein machinery greatly replaces manpower, and now we have a power age, and in in this age the age of scarcity is gone. We have an age of abundance.

Q. Just to move into another field, you said repeatedly that national debts are never paid and can never be paid. In your brief you point out that this is due to the interest that accumulates on it, is that correct?—A. Yes, in so far as the national debt is concerned. If you isolate it from the rest it could be paid, but debt as a whole cannot be paid. I broke it down in the brief for the purpose of illustration.

Q. Will you tell, however, of the situation in Alberta—there is still a provincial debt, is there not?—A. Yes.

Q. And it is being liquidated?—A. For practical purposes, yes.

Q. I think one of the provincial premiers of Alberta declared that at the rate the provincial debt is being liquidated now it will be fully paid in 20 years including accumulated interest?—A. Yes. Today we have sufficient cash reserves to wipe out the present debt and leave a surplus.

Q. That is being done under the modern system, not the social credit system?—A. Yes. Alberta is possibly the exception that proves the rule. If you take the history of national debts in the world you will find that they are not paid. Alberta is one of the bright exceptions in that respect, and you will also find in the United States a few of the individual states have succeeded in paying off their state debt. There is one case in 1935 when the United States debt was liquidated. You know what has happened to it since.

The CHAIRMAN: I know what has happened to that country since.

The WITNESS: That is right. The country has expanded. It has gone into debt. You cannot pay off your total accumulation of debt with a system that does not put into circulation enough money to pay that total debt plus the interest.

By Mr. Crestohl:

Q. You are contradicting the system in Alberta where you say it is being paid off?—A. No. I say the aggregate debt.

Q. Could you tell us whether the province of Alberta is suffering today because it is not run by a social credit economy?—A. Mr. Chairman, we are doing very well in the province of Alberta.

Q. Because it is being run by the modern economic system and not by the social credit economy?—A. That is right. In spite of the fact of not using social credit economy we are doing very well.

Q. Am I right in concluding that your entire method to cure the many ills of our present money system is based on the fact that the government should operate with interest free money?—A. To the extent only that it is necessary for the purpose of putting into circulation the amount of purchasing power required to enable the people to consume the goods we are able to produce; to that extent only.

Q. Where would the government get that kind of money?—A. From the Bank of Canada.

Q. I think Mr. Fleming properly pointed out it could be done by a single stroke of a fountain pen.—A. Just as Stephen Leacock pointed out in May, 1943. We were ridiculed when we talked about fountain pen money then.

Mr. FLEMING: Stephen Leacock was not talking about social credit.

The CHAIRMAN: Neither of you men can prove it because I cannot call Stephen Leacock as a witness.

By Mr. Crestohl:

Q. Is it not a fact that the entire national debt of Canada could be paid off by that same single stroke of a pen?—A. No, I pointed that out before.

The CHAIRMAN: The witness said it could be paid off. The answer should be yes.

The WITNESS: Eventually, yes, but not all at once.

By Mr. Crestohl:

Q. Why eventually? You said it can be done by making a call on the Bank of Canada and a single stroke of the pen should dispose of it.—A. If the Canadian government were to pay off the \$11 billion, or \$15 billion which I think it is, of its bonds today by a stroke of the pen obtaining credit from the Bank of Canada, it would be putting into distribution \$15 billion which our economy cannot absorb because we have not the goods available. That is why we advocate the gradual repayment of the public debt in this respect.

Mr. FLEMING: Still in that manner

The WITNESS: Yes.

By Mr. Crestohl:

Q. Would that not throw us into a situation not unlike the German reichsmark, or the Russian ruble, or the Chinese yen, where it took millions of marks and rubles to pay for a single loaf of bread?—A. If we were to do what you suggest, yes, but I am not suggesting the course of action which you suggest.

Q. But, in theory you say that the government of Canada can call on the Bank of Canada to flood the country with a billion dollars. Would that not have that effect?—A. Of course it would, if the Canadian government were to put through the Bank of Canada \$500 million into circulation. Of course we would have the same thing then, but we are not suggesting that.

Q. That is what you would like the country to do to have purchasing power?—A. I want to emphasize it again and again and again, and Mr. Chairman, I do so because I do not like the suggestion made, when I have been making it so abundantly clear that we are not recommending the issue of unlimited purchasing power; we are recommending the issue of interest free money issued by the Bank of Canada to the extent necessary to enable the

people to consume the goods we are able to produce, and not one cent more. I would like you, Mr. Crestohl, to realize we are sincere when we make that statement.

Mr. CRESTOHL: I do not doubt that.

Mr. BOUCHER (*Restigouche-Madawaska*): Tell that to Louis Even and Gilberte Côté.

The WITNESS: I will say it to the world at large.

By Mr. Crestohl:

Q. At page 32 you speak of the accumulation of debt where you say: "the main disability or weakness of the Canadian Banking System is that it results in the accumulation of an ever increasing burden of debt on the Canadian people that can never be paid." And then I was interested by that ingenious device about the poker game. I presume that you speak of the rake-off as being an equivalent of interest charges?—A. That is right.

Q. You are apparently familiar with the game of poker. You know it must be played at a table; it must be played in a house, and you must have lighting and comfortable chairs.

Mr. Low: Lots of poker games have been played in the open air.

By Mr. Crestohl:

Q. Out in the open there is no rake-off. Also there are sometimes refreshments provided by the one who takes the rake-off. You know all that requires an expense.—A. I would not know, Mr. Crestohl.

Q. You would not know?—A. No.

Q. Then I am informing you that it costs money to provide all the facilities to run a poker game. It costs money to provide all the facilities to carry on every other phase of living in Canada and consequently the rake-off is pretty well justified with the interest charges.

The CHAIRMAN: Gentlemen, please do not discuss poker or other games of chance. This is a very serious business. Have you any more questions?

By Mr. Crestohl:

Q. One more question. For the purposes of clarity, on page 3 you speak of a myth that banks lend only the money their customers deposited, and you say further that the myth exists only because the bankers say so. I am curious to know where is the fact of accuracy, and will you tell the committee where the banks have said that they lend only the money that depositors give them?—A. Well, I quoted in the submission the monthly letter issued by the Royal Bank of Canada for November, 1953. I have it here: "The primary operations which banks perform in the community are the receipt of money, the re-lending of it to borrowers, and the facilitating of exchange."—the primary operations.

Q. There is a difference between the words "primary operations" and "only operations".—A. Yes. Again, it is fair also to say that the majority of people throughout Canada are under the impression that the only money that the banks lend are the deposits of our people.

Q. For the sake of fairness, you say they are under that impression only because the banks have said so. Where have the banks said so? I think we should have that for the record, Mr. Chairman.

The CHAIRMAN: He did not say the banks have said so. He read the Royal Bank of Canada monthly letter written in November, 1953.

Mr. CRESTOHL: It says nothing of the sort.

The CHAIRMAN: He agrees with you.

By Mr. Crestohl:

Q. On the same page you further say: "The main function of banks today is not to safeguard deposits and the re-lending of these deposits." I regard that as rather a panicky thing to say that banks would not primarily safeguard the depositor's money and I do not think it is fair to say in this committee anything as panicky as that.—A. You have twice, Mr. Crestohl, read into the submission words that are not there. In reading the second paragraph from the last you will find this in the submission: "There are many people who still think this is the case, mainly because the banks say it is so." I did not say "only because the banks say so". There is quite a difference in saying "only because the banks say so" and "mainly because they say it is so". And I also want it made clear that I am not saying that only the banks are saying that or that the people believe it only because the banks are saying so. Mr. Crestohl, you can ask any official of any bank in Canada what their main function is and they will tell you it is the creation and issue of money. In the course of their business, of course they protect the deposits of the people, but they do a whole lot of other things too as normal banking operations which are covered in the brief.

Q. There has been a slur that the banks do not protect the depositors' money and I do not think it is fair to make such a statement.—A. You cannot read that into the submission.

Mr. CRESTOHL: That is all, Mr. Chairman.

By Mr. Fraser (Peterborough):

Q. I would like to ask Mr. Maynard a few questions. I understand from the brief and from what Mr. Maynard has said that the whole brief is based on the fact that some kind of a survey should be made to find out what could be produced and what could be consumed. Is that right?—A. Yes.

Q. The whole thing is based on that?—A. I would not say based on that. It is advisable.

Q. You mentioned, and read out of a book that was published in the States that a survey of that kind took a year and by the time the year was out the survey that was made would be absolutely obsolete. Is that right?—A. No.

Q. In the changing times we have now things are moving. No matter what took place six months ago we need something different today, the same as with an aeroplane. We have jets and tomorrow we might have something different.—A. Taking these things into consideration, Mr. Fraser, it is reasonable to assume that a survey could estimate the production capacities of a country from the physical resources that are in the country. Of course there will be changes in those resources of the country. There may be new processes of development that would be invented and would be used for the purpose of increasing production still more. But as far as actually going out of date, I think the basic survey, once made, could be kept up to date without too much difficulty.

Q. It would, of course, mean that the Bureau of Statistics as you suggested would have to put on an extra large force to do it?—A. Mr. Fraser, with all due respect, I do not think so. During the hearings of the post-war Reconstruction Committee of the House of Commons the Alberta government made representations to that committee and we gave the committee considerable information about the physical resources and assets of the province of Alberta. There was one criticism that was made of the committee. That was, we did not estimate the physical resources and assets in dollars and cents. We did not see any necessity for it at the time. We were concerned with the physical development of physical resources and physical assets. I do not recall how long it took the government to prepare that survey but it did not take a year to complete it.

Q. In regard to that, you mentioned what Stephen Leacock said about the consumption of goods during the war, but when that was being discussed this morning you did not bring into the discussion the fact that during that time production was curtailed on account of controls and that also we had rationing and therefore there were not the goods to be consumed?—A. Thank you, Mr. Fraser. I did not want to mention that point because I did not want to try to be in a position of making my picture even better than it was, but the very fact that you mentioned—we did not even use our full manpower resources to increase our production—is an indication that had we done so we would have had far more consumer goods available than we had during the war.

Q. Could I correct you on that? We did fully use our manpower on production but almost all that production was of war equipment and supplies?—A. That is right as to the nature of production.

Q. And only a small portion was used on other goods for the civilian population?—A. Yes, and the consumer goods produced for the civilian population in that period were far greater than the same population had enjoyed during the depression period.

Q. I beg to differ on that point because there was a rush to buy goods when controls were taken off. Do you want to quit now, Mr. Chairman? I have about four or five more questions.—A. Mr. Fraser, with all due respect may I suggest that the people had the money necessary to buy the goods after the war whereas during the depression the goods were there but they did not have the money.

Q. We are not talking about depression but about the war, and people did have the money during the war.—A. Yes, but there was a shortage of goods available.

The CHAIRMAN: We will adjourn until 3.30 p.m. If we are not finished this afternoon then we will have to sit tonight.

AFTERNOON SESSION

The CHAIRMAN: Gentlemen, we have a quorum. Mr. Fraser?

Hon. Lucien Maynard, Attorney General of the province of Alberta, recalled:

By Mr. Fraser (Peterborough):

Q. Mr. Chairman, at 1 o'clock when we rose we were talking about the Bureau of Statistics and the survey which they would have to make in regard to what could be produced and what would be the need or the want of the people. I think this was brought out on Tuesday to some extent, and I would like to get an answer on it. The Bureau of Statistics would find out how many houses, trousers, shirts and so on could be manufactured and what would be needed or wanted, and how many cattle should be raised or could be raised, and how many slaughtered. But how would they know whether the people wanted round steak or under cut, or whether they would want a two-door sedan or a four-door sedan? There is a possibility that at the end of the year I might want a one-storey house instead of a two-storey house as I told the Bureau of Statistics I contemplated building. How would they find out just what was what? How could they channel the needs so that the people would take or get what they asked for instead of having great quantities of one commodity or another left over at the end of the year?—A. Mr. Chairman, it would be impossible for any survey to determine whether the people wanted brown socks or black socks, but it would be possible for a survey to determine the amount of socks that could be produced and the determination as to

whether the people wanted brown socks or black socks would be left as it is today. Today the banking system puts into circulation, by way of loans, funds to enable the manufacturers of the country to produce what they think the people want. It is a pretty fair test. There are some goods left over and if these goods are left over then the manufacturer does not continue production until he is able to dispose of the goods he has on hand in that line. The Dominion Bureau of Statistics could, by a survey, ascertain generally the production requirements of the country—the production possibilities or facilities of the country—but it certainly would not be able to ascertain the exact number of socks or shoes or any other commodity that the people would require. That would be determined by the people themselves through demand for the manufactured product.

Q. You mentioned the bankers would loan the money for this purpose but the bankers are not the ones at the present time who are determining or trying to find out just how many of this or that will be needed or should be produced in the coming year. The different industrial firms throughout the country have their salesmen, retailers and their scouts out all the time finding this out and that is compiled and is something they keep in their own files as secret information that would not be given by an industrial firm to the government.—A. It would not need to be given.

Q. Otherwise the Bureau of Statistics could not find out what one individual firm could or should manufacture.—A. Not what it should, but what it could—pretty well, yes. In fact, that information is available now.

Q. Yes, but at the end of the year what that firm when manufacturing any commodity would not know is this: The Bureau of Statistics might have announced that so many of this article are required but not whether it was their make of goods the people wanted or someone else's?—A. That is right. The Dominion Bureau of Statistics would deal in totals only.

Q. Then our industry would be up a pretty considerable crabapple tree, would it not?—A. Not any more than it is today.

Q. They have their individual surveys?—A. They would carry on with their individual surveys.

Q. On Tuesday you said you would give a loan or credit to the different foreign countries in order that they would buy goods in Canada. You said you would advance \$100 million here and \$100 million there of this new money and in turn the foreign countries would purchase our goods and at the same time you said that we, of course, could not put tariffs against these goods?—A. Now, Mr. Fraser, I do not think I ever said that, because in my submission—

Q. You mentioned tariffs?—A. Yes, in my submission I specifically mentioned tariffs as a means of keeping out foreign goods if necessary in order to prevent competition with our Canadian goods.

Q. But you said that we could not put tariffs against these goods? That was my understanding and I made a note of it at the time you said it on Tuesday. However, I might be wrong—I often make mistakes.—A. Well, if I made that statement, Mr. Fraser, it would be in contradiction with the submission in the brief.

Q. All right, we will let it go at that. Well now, I was going to say that the prosperity of Canada depends on Canada being able to export about 30 per cent of our products. If we cannot do that we are entirely out of luck and we will have a great deal of unemployment. Now, I do not see anything in your brief regarding assistance in relation to exports. You give assistance to imports but not to exports. Now, if that is the case, then our industry in Canada would be at a very considerable disadvantage?—A. Mr. Chairman, there are two points I think Mr. Fraser has overlooked. The second part of the first proposal deals with foreign trade.

Q. Yes, I see that.—A. And that foreign trade section deals with the export of Canadian goods to foreign countries not the imports. We deal specifically—we recommend specifically that our goods should be exported. If it is necessary that we should give credits to foreign countries to buy the goods that we export if they cannot pay for them and if we are not prepared to accept their goods in payment or in exchange for the goods we supply them, then in the course of time that credit should be cancelled out. May I just as a matter of interest refer to the headline in the Montreal "Gazette" this morning where I think the Prime Minister has somewhat substantiated our own view in this regard. The headline reads: "Aid to Asia step toward Peace says Prime Minister," and he says: "I am convinced we must in a true spirit of equality and cooperation join in a world-wide concerted effort to help the people of Asia obtain greater material advantages and the hope of a better future for themselves."

And a little further on he says: "One of the most important tasks they face (the peoples of Asia) is to ensure an adequate supply of food, clothing and shelter to meet the minimum basic needs of their many millions of human beings." Now, I suggest, Mr. Fraser, that our proposal for foreign trade is right along this line of assisting these people to better themselves and at the same time assisting our own people to export the goods that we do not require in Canada.

The CHAIRMAN: Mr. Maynard, I think you know, immediately after the war we extended very large credits to a number of countries for the goods they bought from us. Fortunately, some of them paid up, and consequently the proposition is not new.

The WITNESS: Yes, that is why I am a little surprised that Mr. Fraser said that.

The CHAIRMAN: He was on a different point.

Mr. FRASER (*Peterborough*): I was on a different point because your credits were going to be credits given with fountain pen money.

The CHAIRMAN: That does not change the credit side at all.

By Mr. Fraser (Peterborough):

Q. I quite agree we should help the needy countries, but I am quite concerned over our exports. However, I will leave that for now. You said this morning in answer to a question which I believe was asked by Mr. Fleming that under your plan banks would be able to increase their securities and thus be able to increase their loans, and therefore there would be more buying right throughout the country. Now this is entirely different from what you suggest the Bank of Canada do. You said the Bank of Canada should supply the money and so on in regard to the elimination of the sales tax. You said the Bank of Canada would supply the money—some \$700 million—without any I.O.U. or anything else. This \$700 million would be a yearly affair. Would that not create inflation?—A. Well, Mr. Fraser, it is unfortunate that we do not have the record here. I think what I said this morning is that the Bank of Canada would be able to advance cash reserves, not securities to, the chartered banks for the purpose of enabling the chartered banks to make further loans over and above the fixed position they have reached at the present time.

Q. But on page 103 of your brief you say: "Of course the elimination of the sales tax would mean \$700 million that would have to be supplied by the Bank of Canada."—A. That is another question.

The CHAIRMAN: That is another matter.

The WITNESS: That is another matter. We do claim that one of the ways in which you can put this interest-free money issued by the Bank of Canada into circulation is by the elimination of some taxes—sales tax is specifically

mentioned. That is a recurring situation. It would be a new issue of this money every year if the budget of the government required expenditures to that extent. It is also dependent on the other qualification that I made this morning, and I emphasize again—it also depends on the amount of purchasing power that we put into circulation to balance consumption and production.

By Mr. Fraser (Peterborough):

Q. Now, on page 105 you say: "We fail to see any necessity for the Canadian government borrowing from the chartered banks and taxing the people to obtain the necessary money to pay interest on the loans obtained from the chartered banks, when the Bank of Canada already has all the machinery necessary to make available to the government at cost the funds that may be required by the government." Would this not make it so that the government loses entirely the contact that they have at present through the banks with the people of Canada?—A. I do not see that.

Q. At the present time the Bank of Canada issues bonds, and they are all sold out, and the different chartered banks handle them. The way you have it in this proposition, the Bank of Canada would do the raising of the money and the banks would be left out?—A. In due course that would be the effect, ultimately. If the government debt was paid off, the chartered banks would not be holding any Canadian government bonds. They would all be paid.

Q. Would not the people of Canada lose confidence, not only in the chartered banks but also in the Bank of Canada, when money was issued in that way holus-bolus?—A. In the first place, let us not accept the premise that money will be issued holus-bolus. What I cannot understand in your question, Mr. Fraser, is the suggestion that by paying off this debt completely the people in Canada would lose confidence in their own country.

Q. Yes, but you are not only paying off the debt, but each year you are taking off another few hundred million dollars without any security or anything else. You are just throwing that into the pot.—A. Mr. Fraser, if the economy of the country were static and we had in circulation at the present time all the money required for the economy of the country for years to come, then your suggestion would be correct. It was the Midland Bank Report of February, 1930, that estimated that the world supply of money should be increased at the rate of three per cent annually per capita of the increased population and expansion of business and so on. The only question I am concerned about is this, and this is found with the rest in the brief: Should we continue to have all the money requirements of the country put into circulation as a debt, or should some of the money required in the future be put into circulation interest-free by the Bank of Canada? That is the crux of the question. If we require a certain amount of money in circulation in Canada to look after the ordinary business activity of the country, we put by one billion or ten billion. The important question I am suggesting is this: is it necessary for all that money to be put into circulation as a debt or can some of it be put into circulation interest-free? I suggest that to make a cut-off as it is in our submission we retain the present position of the chartered banks with the eight or nine billion dollars that they have put into circulation and that from now on we have some of the required money in Canada put into circulation interest-free.

Q. Well, now, how many more millions of dollars of bank notes would you issue each year?—A. We do not need any million dollars in bank notes. I covered that in my submission.

Mr. Fraser (Peterborough): I know you did.

The CHAIRMAN: If you know he did, what is the purpose of asking it again?

By Mr. Fraser (Peterborough):

Q. I ask it for this reason: Each year our population is growing and there is a larger demand for the dollar. I just wondered how you would figure that out and how the Bank of Canada would issue it.—A. In the same manner as it is figured out today. Today the chartered banks have deposits with the Bank of Canada that constitute a claim against the Bank of Canada and for which they can issue notes at any time as and when the notes are required. The same situation would be continued. As and when in the future additional bank notes were required by the chartered banks to meet the everyday pocket change of the public, the Bank of Canada would be in a position to put them into circulation.

Q. Just one more question. On page 92 of the brief you mention the fact that the banks are paying dividends at rates varying from 10 to 16 per cent. I personally feel that that is rather misleading, because I do not think they are paying 10 to 16 per cent.

The CHAIRMAN: On the original investment?

Mr. FRASER (*Peterborough*): On the par value. They do not sell their stock at par value, and I think that is misleading to the public because an owner of bank stock does not receive 16 per cent.

The WITNESS: These statements were taken from the official reports of the chartered banks.

The CHAIRMAN: That was given in Exhibit 6; the percentage of net profits to paid-up capital shows that to be quite a modest figure. The figure is quite correct.

Mr. FRASER (*Peterborough*): But the return to the stockholder.

The CHAIRMAN: That is quite different.

The WITNESS: The return to the stockholder might be different.

Mr. MACNAUGHTON: It is 4.9 per cent, in Exhibit 10.

By Mr. Tucker:

Q. You stated, Mr. Maynard, in your brief, as I understand it, that the crux of this whole situation is that some money should be but is not issued as an interest-bearing debt, that the desirable objective cannot be achieved under a system where all money is issued as an interest-bearing debt, and where you are called upon to pay back more to the banking system than the banking system puts into circulation. Now, that, I take it, is your main objection and your main reason for thinking that the present system cannot function, that more has to be paid back than is ever put into the system?—A. That is one of the points. The second one—

Q. We will deal with one at a time. You said in answer to Mr. Fraser that that was the crux of the situation. I am using your own words.—A. That is right.

Q. One of the things that I thought you might explain is this. It seemed to me that when the Bank of Canada prints money and makes entries to the credit of the government in its books in order to purchase government bonds, and the interest that they get on those bonds is turned over to the Receiver General of Canada, in effect that is non-interest-bearing money that is put into the system. In effect the government pays the money for interest and gets it back again, so it is close to non-interest-bearing, except for the cost of administering the Bank of Canada.—A. Is it not correct that Mr. Towers has stated before this committee that the Canadian government does not borrow from the Bank of Canada, but it would prefer to have the Canadian government borrow from the chartered banks?

Q. That is not the question I asked. You say that the banks do not put that sort of money into the system—this is I think the whole trouble. You are making statements in this respect that are not borne out by the facts. If you will look at the first statement of the Bank of Canada you will find there—it was issued as of the 31 December, 1935—that the notes in circulation are \$99,677,000 roughly one hundred million dollars. Then the deposits of the chartered banks with the Bank of Canada were \$181 million. So, it means there were roughly \$280 million had been put into the system on the 31st December, 1935, by the Bank of Canada. That is correct is it not?—A. I will accept your figures on that.

Q. Then you come to December 31, 1953, and you have these figures: the Bank of Canada by that time had put into the system in Bank of Canada notes \$1,599,000,000. In other words, the Bank of Canada put into the money system of this country approximately \$1,600,000,000. They also had made available to the banks in credit to the banks on which they could draw cheques or demand currency the additional sum of \$623,000,000. That is, the chartered banks deposits in the Bank of Canada. So that the Bank of Canada had by that time in the whole monetary system roughly \$2,223,000,000. To the Bank of Canada had put the difference between \$280 million and \$2,223,000,000 into the system of the country in money—the Bank of Canada did. That was non-interest bearing money put into the system in that period of 16 years—\$2 billion 223 millions of dollars and \$1,942,000,000; it was non-interest bearing and exactly the thing which you are claiming should be done, and they have been doing it for the last 15 years.—A. Let us go back to 1935.

Q. Is that not correct?—A. No.

Q. Why?—A. That is what I am going to try to point out. Let us go back to 1935. That first \$281,000,000 in money which was advanced by the Bank of Canada to the chartered banks to replace the notes issued by the chartered banks and they took over the gold supply of the chartered banks. Correct?

Q. That is money. The money I have given you is the notes in circulation of the Bank of Canada plus the deposits of the chartered banks with the Bank of Canada. In other words that was money which had been put into the system, or which was in the system at that time.—A. Yes, but is it not correct that that was money which had been put into the system by the Bank of Canada in taking over the note privilege issue that the chartered banks have implemented.

Q. What I am getting at is the increase in those 18 years. I am not at the moment concerned with how it got there. What I am concerned about is the increase of almost 2 billion dollars of money that had been injected into the system by the Bank of Canada in 18 years. Now, there is that increase there and I think you must admit it is based on as non-interest bearing a debt as even you could wish for.—A. I cannot accept that.

Q. In what way is it not a non-interest bearing debt?—A. That is what I am trying to explain.

Q. The Bank of Canada put that money all out by purchasing government bonds and it printed the money for those government bonds or gave cheques on its own account for them and the interest on those government bonds is thereafter paid to the Bank of Canada and it then turns that money back to the Receiver General. Last year it was \$44 million. How much more non-interest bearing could you make it?—A. I come to the first point of 1935. That \$281 million was issued by the Bank of Canada to the chartered banks and the gold reserves were turned over to the Bank of Canada. The balance of the moneys which were issued by the Bank of Canada were not all issued

to the Canadian government. Part of that was issued to the chartered banks for cash reserves for the purpose of enabling the chartered banks to expand bank credit.

Q. I am dealing with the increase.—A. Yes. What has been advanced to the chartered banks out of that \$2 billion; I do not have the figures?

Q. What have they been advanced? Practically nothing. We are told by the Governor of the Bank of Canada there was very little loaning. Its operations have been entirely in the nature of the purchase of government bonds. It goes out and buys government bonds and pays for them with this artificially created money?—A. We are also told by Mr. Towers that the Bank of Canada does not buy or issue money directly in the form of Canada government bonds.

Q. This money was thrown in the monetary stream by the Bank of Canada by going out and purchasing bonds and it took government bonds for it. It collects the interest on them from the government and then turns that interest right back to the government less the cost of administering the Bank of Canada.—A. \$48 million?

Q. And you will find that is the amount of interest they collected on government bonds less the cost of administration. Now, how much more of a non-interest bearing issue of money could you have than that?—A. Mr. Tucker, there is part of that amount I will accept as being issued by the Bank of Canada without any debt strings attached in the respect that the interest paid comes back to the Canadian government. I have not the figures here, but I am prepared to accept the principle.

The CHAIRMAN: He is prepared to accept the principle. He can think of no improvement on the present method, but questions the amount.

By Mr. Tucker:

Q. I have the Bank of Canada report here. The increase there is practically all a matter of the purchase by the Bank of Canada of bonds for which it threw this created money into the system, and I am putting it to you it has put out in 18 years around \$2 billions of the very sort of money which you say should be put out. And then you say, and I put this further to you, that not enough is put in to pay back the amount loaned. But if you look at the increase in loans by the banks from 1935 to the present day you will see that they increased—that is, that bank loans increased from about \$300 million to about \$2,347 million in fifteen years. Now, then, the average interest that would be paid was 5 per cent on average on the loans by the banks, and would be about \$65 million. The increase in cash thrown into the system would be over \$100 million. In other words, the Bank of Canada has thrown into the system more than the equivalent of the interest necessary to be paid on borrowings from the bank. In other words, the thing which you say upset the whole system has been met steadily since the set-up of the Bank of Canada.—A. Oh, no.

Q. Well, just show me that it is not true?—A. I come back to the principle you enunciate and I accept it. I accept that when the Bank of Canada holds Dominion Government bonds and the proceeds go to the Canadian government, that it is interest-free money. I do not know to what extent that has been done, but I say this. . . .

The CHAIRMAN: He agrees to the extent that it has been done.

The WITNESS: Let me carry on. The interest paid back to the chartered banks does not represent the only factor we have enunciated in this submission as being the problem with the deficiency that is causing the deficient power in the set-up or the deficiency of purchasing power in the system.

Mr. TUCKER: You say that we must face it.

The CHAIRMAN: At what page?

By Mr. Tucker:

Q. At page 118:

This objective cannot be achieved under a banking system where all money is issued as an interest-bearing debt. . . . Surely the Bank of Canada is part of the banking system of Canada and when you say that all money is issued as an interest-bearing debt, you are just being wrong to the extent of almost \$2½ billion.—A. To the extent of the money issued by the Bank of Canada in purchasing Canadian Government bonds, yes.

Q. I have the statement of the Bank of Canada here and the actual notes in circulation as of December 31, 1953, was \$1 billion 599 million; the deposits of the chartered banks, it is just the same because it is subject to check, were \$623 million. Now that, as you will notice, makes \$2,223 million. Now we get this into circulation and this is based on short term or other securities issued or guaranteed by the Government of Canada to the extent of \$1,376 million; and on other securities issued or guaranteed by the Government of Canada or by any other provincial government to the extent of a further \$893 million. Now then, those two added together make up \$2 billion or roughly, \$2,470 million. That is the way in which that money has been injected into the system by the purchase of government bonds, \$2,400 million dollars worth, and they have got in actual bank money, as I stated, \$2 billion and some odd million. That is the way the money is put into the system and it is put in as non-interest-bearing debt, the very thing you are crying out for.—A. There should then be no objection if we have the Bank of Canada put in a little more.

Q. We will come to that. I want you to realize that your brief was basically and very seriously wrong.—A. That is not the whole point.

Q. Would you now say that a mistake of \$2,200 million is a very serious mistake?—A. I am prepared to say it is a mistake, but I have not got the figures.

Q. Well, you can study them. And I suggest to you that when you come forward here and lay this down as fundamental and are wrong to the extent of \$2,200 million, it is a very serious mistake. And then when you come to figure it out, you say that the banking system—that you are called upon to pay back more to the banking system than the banking system put in. And I pointed out to you that if you allow for interest at 5 per cent on loans of the bank, speaking roughly, that that is less than the Bank of Canada has thrown into the system. So again the fundamental basis of your brief is wrong.—A. Mr. Tucker, you were reading from page 118.

Q. 118, yes.—A. I think you refer to the part of the brief where I deal with money being issued by the chartered banks as a debt that cannot be paid back.

Q. You do not say that in your conclusion.—A. No.

Q. You say the banking system. Why exclude the Bank of Canada? The Bank of Canada is an integral part of our banking system, is it not? Surely you would not want anyone to believe that if the Bank of Canada makes up this deficiency which you say is a fundamental weakness, that that should not be taken into account?—A. No, that is right. It should be taken into account. Any deficiency that is made up should be taken into account.

Q. What you say is that if they show this vast sum of money, it is the very thing that was advocated back in the thirties and that the Bank of Canada should do this very thing, and they have been doing it for the last fifteen years, and it is an astonishing thing for you to come before the committee and talk as if it had not been done.—A. Well now, the main submission in the body of the brief leading to that conclusion deals with the chartered banks and the money put in circulation by the chartered banks.

Q. You admit that you have to take into account what the Bank of Canada does to remedy the deficiencies of the banking system as it once existed without the Bank of Canada? That is why we wanted it set up.—A. We have taken into consideration all the factors.

Q. And when you say that the banking system does not issue any money except interest-bearing debt, I point out to you that that is wrong to the extent of over \$2 billion and that the amount is more than the average interest paid to the banks during that period. Wouldn't that make you reconsider your attitude?—A. It would make me have a look at the figures which I propose to do.

Q. Well, I have the reports here and I have studied these things very much and I know the figures. Now the next thing, Mr. Maynard, as you probably know, this whole question of moving towards 100 per cent reserves was dealt with very fully by the banking and commerce committee back in 1939.—A. Yes.

Q. Now, I was one at that time who thought that it would be a good idea and I should like to read you just briefly from what Mr. Towers said in a submission or comment on the 100 per cent proposals submitted by Mr. Towers in reply to Mr. Tucker. This was in 1939.

Mr. CHAIRMAN: What is the page?

Mr. TUCKER: The page? This is the blue book that was put out with the memorandum and tables respecting the Bank of Canada extracted from the evidence of Graham F. Towers and Dr. W. C. Clark, the Deputy Minister of Finance, given before the standing committee on banking and commerce. It was issued as a blue book.

The CHAIRMAN: Is the committee to understand that once upon a time you entertained such views?

Mr. TUCKER: Oh yes. But I listened to some of the evidence given and considered it most carefully. This is what Mr. Towers said in regard to this matter:

Obviously, if the banks were forced to carry 100 per cent cash reserves against deposits, their loans and investments, in fact all their assets other than cash, would be restricted to an amount not exceeding their capital and reserve funds.

I think you face that situation that if you move towards a 100 per cent reserve system the banks then could only loan the actual capital which they had in their reserve funds.—A. That is right.

At December 31st last this amount was \$279 million—and amount which is obviously inadequate to finance the requirements of agriculture, industry and individuals. As the banks would have very little in the way of earnings, they would be forced to eliminate any interest payments to depositors. To cover their operating expenses they would, in fact, have to require anyone who wanted to maintain a deposit account to pay a substantial charge for that service.

Now then, Mr. Towers goes on to point out that this would increase the cost of money to Canadian industries and to Canadian borrowers and to Canadian agricultural tremendously. In other words, if they could not build up investments and loans to the extent of ten times the amount of their cash reserves, they could not possibly do business at the rate of a maximum of 6 per cent and keep going.

One of the things which made me change my attitude was that I considered it more important when other countries had similar banking systems and credit available at low rates of interest to industry and agriculture in those other countries that we could not afford to have a system which made our system more rigid and made us pay higher rates when trying to compete with

them. Do you not think that the provision of credit to industry and agriculture when we have to compete with other countries with a system like ours is pretty important?—A. It is very important.

Q. Would you quarrel with Mr. Towers' suggestion that if they had to carry 100 per cent reserves as you are suggesting now, would you quarrel with the suggestion that it would mean that they could not pay interest to their depositors and that they would have to charge in some cases substantially for carrying accounts, and that ultimately credit in Canada would be much more expensive than it would be in those other countries doing business on the basis of our present Canadian banking system?—A. The statement which Mr. Towers made in 1939 applied to circumstances and conditions under which he was being questioned at that time. That is not the case in this submission. We are suggesting in this submission that the banks retain the privilege of extending bank credit up to ten times their cash reserves, as they are doing today, which puts them roughly in the position of being able to maintain \$9 billion in circulation.

Q. But from now on they would be on 100 per cent reserves?—A. Yes.

Q. And had the suggestion I made in 1939 been accepted at that time do you suppose we would have the tremendous expansion we have had since 1939?—A. It could still have been done.

Q. Where would the money have come from?—A. From the Bank of Canada.

Q. Then what about the suggestion that it would eliminate the payment of interest to depositors? It would mean that people would have to pay for having their accounts carried. It would mean that the cost of money to agriculture and industry would have to be raised because bankers would not have the right to loan to the extent of ten times their cash reserves. We have had this tremendous expansion since 1939. Do we not hope to have a future expansion?—A. Yes.

Q. And if you suggest that this would have these effects would not that make you pause, Mr. Maynard, coming as you do from the province that has made the tremendous advances you have made as a result of vast investments?—A. That is the reason we have not advocated the 100 per cent basis for chartered banks.

Q. You say though from now on— —A. We are allowing them a cushion of \$9 billion—a terrific cushion—which should be able to carry the chartered banks for years. In addition to that there are two supplies of funds which will be available to the banks in the future in order to enable them to earn profits—but not to the extent they are earning them today. I think I made it clear in the brief their profits will be cut, but they will receive substantial profits. One is the fact that the money put into circulation by the Canadian government will eventually find itself in the hands of the banks as deposits and will be available to the banks for investment purposes. Secondly, the suggestion was made that if the banks require additional cash reserves on a 100 per cent basis for the purpose of expanding credit for production purpose they could obtain the cash reserves at a nominal cost or no cost from the Bank of Canada. That still puts the bank in the position of being able to earn profits on the funds obtained from the Bank of Canada for the purpose of expansion of production in the future.

Q. The first thing I suggest, Mr. Maynard is this: if it was going to have a restrictive effect on Canadian industry and agriculture back in 1939, why would it not have a similar effect on future development?—A. I think I indicated that in answering the first time, that the money would still have been available. It would have cost the bank more, but would still have been avail-

able on 100 per cent cash reserve basis. Starting from scratch the banks would not be in a position to make the profits they have been making.

Q. Well, now, if the banks are deemed to be making undue profits on their loans, the overall interest rate could be reduced in order to further stimulate the development of the Canadian economy—that it is much more worth while to get interest down than to flog a theory like this to the very ultimate. Would you not suggest that the keeping down of interest rates would be a pretty desirable thing?—A. Of course it would be desirable, but two factors must be weighed one against the other.

Q. Would you not think that keeping interest rates down would be worth a great deal more than the saving of the interest that would come from your proposal?—A. No, Mr. Tucker, I do not think so because the banking system—the chartered banks—still are not in a position to put into circulation the money that is required to finance consumption. They can put into circulation money to finance production.

Q. You have dealt with that five or six times already. Let us deal with what I am trying to get at. You are suggesting the banks would re-loan because they can go to the Bank of Canada and rediscount their securities and get further money under your system?—A. Not even with rediscounting.

Q. Then they can borrow from the Bank of Canada?—A. Yes.

Q. I asked Mr. Towers about that when 14 years ago I was bringing up the very arguments you are bringing up, and here is what Mr. Towers said—and I will put his answer to you: in addition to the other arguments already mentioned he deals here with the suggestion which I submitted to him, and he deals extensively with my suggestion that gradually we should work towards the 100 per cent reserve proposal, and he said:

Variations in the detail or scope of the proposals which in general may be referred to as 100 per cent money, will naturally effect the magnitude of the changes involved, but it remains true in every case that for each dollar by which the government reduces its interest charges there is a corresponding decline in the income of the public, in the form of a smaller return on investments, a reduction in interest on bank deposits and probably through increased charges on bank loans and banking services.

I can only repeat what I have already said on several occasions, namely, that I do not see how a proposal of this kind can be 'costless' to the country as a whole nor how it can fail to cause widespread inequality of sacrifice.

In regard to the other argument which is advanced in favour of the 100 per cent cash reserve plan, that is, its value as a method of monetary control, I should like to make a few comments.

The first point is that if the redemption of government debt in cash is applied to the publicly-held debt, there is an increase of about \$3,000 millions in the volume of bank deposits—approximately doubling the existing volume of money in Canada. If this large increase in the amount of money remained idle, there might be no serious effects beyond the inequitable taxation which has been discussed. But if the additional money were used by its owners there would be very marked effects—effects which the Bank of Canada does not believe would be favourable or it would have taken steps under the existing system to provide the basis for such an expansion.

Secondly, in regard to the suggestion that 100 per cent cash reserves would provide more control over the lending activities of the banks, I would point out that if the central bank merely rediscounted whatever loans the banks chose to present, there is no reason to believe that bank's

loaning policy would be any different than it is today. If, on the other hand, the central bank were to assume the responsibility for deciding what loans should or should not be made, I believe that to perform such a task efficiently would require a huge organization. As to whether the results would be better than under the present system, I could not say, but I believe the determining factor would be the experience and judgment of the persons involved.

The CHAIRMAN: What page are you reading from?

Mr. TUCKER: Page 71 of this evidence.

By Mr. Tucker:

Q. Would you agree with that?—A. Yes.

Q. Now then, if you go on increasing your public debt as we have done and putting out more and more money into the system, you are not covering these things entirely by taxes at the present time. In fact, the Bank of Canada has in effect had under the Bank of Canada Act to put back \$44 million into the treasury from its profits last year?—A. You are still taxing the people to pay the interest on the public debt.

Q. To the extent that you are operating here, you are not paying taxes for them. Let me go on and read:

In regard to the other argument which is advanced in favour of the 100 per cent cash reserve plan, that is, its value as a method of monetary control, I should like to make a few comments.

The first point is that if the redemption of government debt in cash is applied to the publicly-held debt, there is an increase of about \$3,000 millions in the volume of bank deposits—approximately doubling the existing volume of money in Canada. If this large increase in the amount of money remained idle, there might be no serious effects beyond the inequitable taxation which has been discussed. But if the additional money were used by its owners there would be very marked effects—effects which the Bank of Canada does not believe would be favourable or it would have taken steps under the existing system to provide the basis for such an expansion.

As I understand it, what Mr. Towers is saying there is this. He said that we had in 1939 to provide the cash reserves necessary for all the expansion that was desirable or possible in Canada. That is what you said, also that you stand ready to provide all the necessary expansion of money and credit that is desirable. I suggest to you that the figures show that the Bank of Canada followed that policy rather generously.—A. The only reason that it was followed was because of the necessity due to the war.

Q. It has been happening since the war.—A. You are coming back to your figures on the interest.

Q. No, on the expansion of the Bank of Canada money.—A. Yes, but, Mr. Tucker, that expansion took place during the war when money was no obstacle to the war effort.

Q. It has taken place since the war, Mr. Maynard. It is expansion in order to finance the tremendous development of Canada. Take, for example, 1946. The chartered banks' cash then was \$742 million; it is now \$887 million. In other words, there has been an increase in the chartered banks' cash of \$145 million, which would warrant an increase in loans and investments by banks of \$1,450,000,000. That is since the war, almost as much as happened during the war.—A. Mr. Tucker, let us not forget the dilemma which faced the Bank of Canada in 1946. It was faced with the alternative of either letting the prices of government bonds slump or else buying in government bonds for the

purpose of maintaining the bonds at a high price and creating inflation. It took the alternative of maintaining the price of the bonds, but at the cost of buying in the bonds and expanding cash reserves, thus expanding the bank credit, with the result that in 1951 it was necessary for Mr. Towers to call a conference of officials of the Bank of Canada for the purpose of curtailing any further expansion of bank credit.

Q. Yes, but I put it to you, Mr. Maynard, that Mr. Towers expanded bank credit—he says it himself, and I am inclined to believe him—purely on the basis of what he thought was necessary for financing the development of Canada, and this other operation of keeping government bonds in line was carried on under another fund set up by the government. It had been administered by the Bank of Canada. It did not affect Bank of Canada cash.—A. The statement you refer to was made in 1939, and that statement is not applicable to the decision faced by Mr. Towers in 1946.

Q. The decision faced by Mr. Towers in 1946 was to finance a rapidly expanding economy, and he increased bank cash, which enabled the banks of Canada to increase their financing of the economy to the extent of over \$1,400,000,000. In other words, I believe our banking system is regarded as the most elastic system and the most responsive to the needs of a developing economy of any system in the world, and it is based upon the fact that it does permit the expansion of credit on the ten-to-one basis. If you introduced the rigidity into the system that you are suggesting, do you suppose that we could have the tremendous expansion of credit that we have?—A. Yes, Mr. Tucker, we could, but let me also remind you again—and this is the evidence of Mr. Towers before this committee—that it was not because of choice that credit was expanded from 1946 on. He realized that expansion of credit was going to cause quite an inflationary situation on top of the enormous amounts of money that people had obtained during the war and were unable to spend. The only reason that the Bank of Canada purchased government bonds after 1946, with the result that bank cash reserves increased, thus enabling the banks to expand credit, is because it was felt desirable to maintain the price of government bonds at a high level.

Q. Is this not the reason, Mr. Maynard, that there were demands by the investing public for loans from the banks, and the banks required these increased reserves in order to finance these demanded loans, and that meant that there was a resulting demand for goods that outran the country's ability to produce? This produced inflationary pressures which caused the cost of living to rise, and it was decided to arrest that inflationary movement, and that is the reason. It was not a question of the price of government bonds at all. At least, Mr. Towers told us that. It was to arrest the inflationary movement. I suggest that what was done after the war by the Bank of Canada caused an inflationary movement. I wonder what kind of result would follow from your suggestion. You say yourself that inflation would be a bad thing?—A. Yes.

Q. Now let me read you something further that Mr. Towers said:

Secondly, in regard to the suggestion that 100 per cent cash reserves would provide more control over the lending activities of the banks, I would point out that if the central bank merely rediscounted whatever loans the banks chose to present, there is no reason to believe that bank's loaning policy would be any different than it is today.

In other words, that if the banks could come to the Bank of Canada and get any rediscount they wanted or any loan against their loans—if the Bank of Canada in that way acted automatically there would be no change in the chartered banks' policy. I read further:

If, on the other hand, the central bank were to assume the responsibility for deciding what loans should or should not be made, I believe that to perform such a task efficiently would require a huge organization.

In other words, if you are going to move towards 100 per cent reserves, the Bank of Canada, unless it just handed over money whenever it was asked for by the banks, would have set up a supervisory system of all those investments and loans made by the chartered banks and you would have what you do not believe in, practically complete control of banking by the Bank of Canada, which is a government institution; you do not believe in that?—A. Mr. Tucker, the whole preamble of the Bank of Canada is to provide an institution to regulate and control the amount of money and credit in the country.

Q. Do you not think that if there had been— —A. In 1946 to 1949, no, with the result that it was necessary for Mr. Towers to call the officials of the bank to curtail bank credit. The reason was given by Mr. Towers before this committee.

Q. The reason was that it was causing too much inflation and it was decided to operate that way rather than sharply reduce Bank of Canada cash. In other words, he got the co-operation of the banks instead of operating as he might have done, but that was to prevent inflation.—A. Mr. Tucker—

Q. You have read the evidence. Have you not seen where he said that? —A. . . . It was either a case of controlling inflation by reducing the expansion of bank credit, by restricting the cash reserves of the banks; or by controlling the price level of government bonds by buying government bonds. He expanded the cash reserves; he took the second course.

Q. I think that never at any time did Mr. Towers ever suggest that he ever bought bonds in order to keep the price of government bonds stable, because that would be going against the main purpose for which he deals in government bonds, and I do not think you can find a single piece of his evidence where he suggested that he operated in government bonds in any other way than to affect the bank cash so that they would be able to meet demand for loans and investments or cut down credit expansion.—A. Mr. Tucker, I think I will find the evidence before we are through this afternoon. I think it was in a reply to Mr. Macdonnell.

Q. I think you will find that Mr. Towers realizes that he has a job to do for the Bank of Canada, and that is to provide credit and so on for the needs of the economy and that what was done through the Bank of Canada has nothing to do with any objective as to the price of government bonds. I presume, Mr. Maynard, what you wish is this. You are wanting to get the Bank of Canada in a position where it can say to any bank, "Once you are fully loaned out you have to come to us for a loan to meet any loan that you wish to make." The 100 per cent reserve system means that, and it means that the Bank of Canada would have to supervise the loans or the proposed loans of every one of the chartered banks. Do you believe that would be a good thing—A. No, Mr. Tucker, that does not necessarily follow. The Bank of Canada is still in the position even on the 100 per cent cash reserve basis to allow banks to extend credit if it is necessary for the purpose of increasing production in the country over and above the \$9 billion under which the chartered banks are allowed to conduct the operation.

Q. Did you follow what Mr. Towers said? He said either you would have a policy where the Bank of Canada automatically loaned against their investments or they exercised a discretion. If they automatically loan it, the banks should have no different policy than today because the banks would then loan when they thought it wise and not loan when they did not think it wise. There would under this policy be no difference except that they would have to

charge a higher interest rate. On the other hand if the Bank of Canada refused to automatically make loans when asked it would have to assume the responsibility of deciding what loans should or should not be made by the chartered banks. It would have to supervise the business of the chartered banks. To do this it would have to have a tremendous supervising organization and you would in fact if not in name have nationalization of the operation of our banking system. Those are the two courses Mr. Towers pointed out. Would you disagree with that?—A. I do not disagree with it, but I do disagree with the inference or the conclusion you try to deduct from it. The Bank of Canada is in a position to influence the amount of bank credit that the banks can issue by increasing or decreasing the cash reserves of the banks. That is fundamental.

Q. I think you should read Mr. Towers' statement there.—A. In 1939?

Q. In 1939 and also before this committee. Another thing I would draw to your attention, Mr. Maynard, is at page 59 of your brief you say: "the creation of new money is the right of the banking system." Now then, when you say "the right of the banking system" were you referring to the chartered banks or including in that the Bank of Canada?—A. Page 59?

Q. Yes. This is one of your fundamental theses, that the only people who can issue new money is the banking system. You meant the chartered banks?—A. Yes.

Q. In view of the fact that the Bank of Canada in the last 18 years has put out almost \$2 billion of new money, that statement was a slight error in your brief?—A. Not necessarily.

Q. Would you not say that the money which the Bank of Canada put out was new money?—A. Yes.

Q. Did the Bank of Canada create it?—A. I have got to come back to the position I took earlier that I have to check the figures to ascertain how much of that—

Q. I give you the Bank of Canada report right there. Look at it.—A. It is not only by looking at a figure that you are in a position to understand and analyse a figure.

Q. I will read it. This is the report of the position on December 31, 1953. We find that the Bank of Canada has put out notes in circulation, \$1,599,000,000. Now then, they had \$99 million when they took over 15 years before. Would you not say that that money which is circulating through Canada and which we are all so glad to get a hold of a little bit of, was created, printed?—A. Yes, I must accept that. But under what system?

Q. Was it not new money?—A. It depends on the system through which it was put into circulation.

Q. Since they went out and bought government bonds and printed money and paid them, was not that new money created? It was certainly new when it was created.—A. That is what I want to check.

Q. If the Bank of Canada report which I thought you would have studied very carefully is correct then there is a billion and a half of notes created, and you say the creation of new money is the right of the chartered banks. You are just a billion and a half dollars out there. Are you not?—A. Well—

Q. You must be.—A. No. I am not going to accept the figure.

Q. Would you quarrel with the return of the Bank of Canada?—A. No.

Q. What is the explanation?—A. I do not know but I will say this that the Bank of Canada undoubtedly creates money.

The CHAIRMAN: The other explanation is that you could be right, Mr. Tucker. Let us get on with some other question.

Mr. TUCKER: I do not want to waste time, Mr. Chairman.

The CHAIRMAN: That is what I thought. Let us get on with some other questions.

By Mr. Tucker:

Q. You say on page 69: "the over-production of wheat or any other product does not bring on a depression. The lack of money is responsible. Money alone is the key to its solution." You are suggesting, I take it, that when we have, as we have had, the equivalent of five crops in three years and other countries are not able to pay for our wheat as fast as we have been growing it, it is not a matter of foreign trade or anything else, but it is just a matter of money. Do you really mean that? Are you suggesting that?—A. There are countries in the world that could use our wheat today.

Q. There is no doubt if you are ready to give away everything you have you can get rid of it, but you have to pay the people who produce it.—A. Yes.

Q. Are you suggesting the opening up of markets and freeing trade and all that sort of thing has not a very great part to play in this? You are stating that money alone is the key to the solution. Do you really mean that?—A. Money is the key to the solution.

Q. In other words, then the question of fostering foreign trade and enabling people to buy our goods is not important?—A. That is a monetary consideration.

Q. I thought you said money is the thing.—A. Yes, but money is the monetary consideration in foreign exchange.

Q. I understand you to say that you would let the people of other countries have it and issue our money to pay for it and pay our producers with the money which you print. Is that right?—A. Yes.

Q. And I suppose that you have studied economics enough to know that if you carried that out to the extent where you put out twice the amount of money you have today each dollar would be worth half as much unless in the meantime there was some great change in the velocity of circulation?—A. Unless you had the goods available for purchase by the money in circulation.

Q. If you shipped your goods out, and got nothing back for them, and issued money to the producers of those goods, there would be no goods to represent that money?—A. No goods from foreign countries.

Q. In other words, you would issue money for which there are no goods. Would not that money then be worth far less? Would you not in that process rob the producers as the monarchs of old robbed them when they clipped their metal coins?—A. No. If we have a deficiency in purchasing power in the country and a surplus production of goods and are unable to distribute them because of that deficiency in purchasing power, one of the means in which you can put purchasing power in circulation is by the Bank of Canada issuing money for the payment of the surplus goods produced in this country. The wheat goes out of the country and then we have a credit against the foreign country as far as our own country is concerned. So long as you do not put in circulation more money than required to enable the people to purchase the balance of the goods produced then we do not have the situation you suggest.

Q. Do you agree that money is a measure of value?—A. Yes.

Q. And if you pay out twice the amount of money for the goods in existence, right then your money is only worth half as much as it was before?—A. At the same time, if you have goods on the shelves?

Q. But that is not true.—A. It is true if the goods are there.

Q. If you take them and give them away to a foreign country for a debt which you proceed to cancel, then you have no longer got the goods and you have printed money against them, and your money is depreciated by that very fact?—A. No, because you have eliminated the one factor I was trying to suggest.

Q. All right, and what is that?—A. The fact that we have goods which cannot be distributed today because of a lack of money.

Q. All right. If you print some money and go to the farmer and say: We want to take your wheat off your hands and all that you are giving him, or all he is getting for it is that printed money, and you say that to every producer in the country, have you not in effect swindled the producer out of his production because you have given him a printed piece of paper for his hard work? And if you do that to all the producers in the country, you have taken from them something of value and given them something which looks valuable to them but diminishes the value of all the money in the country, so that they are no better off? The people have gained no increase in existing goods in the process?—A. No. It is no more of a swindle than the \$1 billion which this Canadian government gave to Great Britain during the war. It is no more of a swindle than the suggestion which the Prime Minister makes in today's *Gazette* that we should feed the hungry people of Asia. The same principle is involved, and as long as you have goods that cannot be distributed for lack of purchasing power, it may be wheat, and you put the equated purchasing power into circulation by way of social service benefits, or by way of payment of the public debt, or by way of surplus goods which we cannot use in Canada, you have not swindled anybody.

Q. Well, Great Britain was an ally of ours in the war and it was thought that we should assist her and that was done as a matter of national policy and not as a matter of getting rid of our surpluses. To do these things in order to help the under-privileged countries which have no chance is one thing. It should be done at the expense of the country as a whole. It certainly does not advance the producer or the country at all if we do anything like that merely to get rid of our production. If it were a matter of national policy to help other countries that is reasonable but you suggest that we should do it to help solve our problem of over-supply—A. No, but for a two-fold purpose. The Prime Minister suggested yesterday in his statement that even if one-half of our total national budget was spent in aid or assistance to those Asian countries, and even if properly spent, that we would not even scratch the surface.

Q. That was given for another purpose; it was given as a matter of assistance to other needy friendly countries. But you say it should be done to get rid of an over-supply or surplus.—A. No, not altogether; it should be done for the purpose of distributing the surplus to the people who need it.

Q. Not long ago it was suggested that the United States was going to give quite a bit of grain to Japan as part of their mutual defence agreement. Right away there was great uneasiness in Canada because it was realized that if the United States started to give away grain which we hoped to sell, it might destroy our economy. Now, if we should start out on such a magnanimous policy as theirs, in regard to our grain what is going to happen to our ability to sell any grain?—A. There will undoubtedly be countries in the world which will be in a position to buy our grain. That is where the international wheat agreement comes into the picture. There are other nations in the world that cannot buy our grain.

Q. But if we give it to them why should any country in the future trade us goods for goods we are prepared to give away if we cannot sell them?—A. If those countries produce any goods that we want, then we should take their goods in exchange for our grain.

Q. But if we start taking their textiles you will find that it will be throwing our textile workers out of work, so you cannot have it both ways.—A. That is right.

Q. Then what would you do?—A. If we do not want their goods, or do not require their goods, then in due course or at an appropriate time the loan that has been made to them with which to purchase our goods should be cancelled out because we are not prepared to accept their goods in payment for our grain.

Q. Do you think we will never be able to dispose of our wheat for some goods, or do you suggest that we should embark on a policy of giving away our wheat?—A. No, not on a basis of giving it away tomorrow.

Q. But if you give it to them on that basis, then they will know that you will ultimately cancel the debt owing for it, and they would not bother to try to pay for it.—A. If they cannot pay for it by exporting goods to us, or if we do not want their goods or cannot use their goods, and that is the only way in which we can deal with other countries, we are far better off, I suggest, to take surplus goods that we do not need ourselves and cannot use and cannot dispose of to any greater benefit and let the underprivileged have them. But there are many countries that can buy them. We are far better off to give those goods away to the underprivileged, goods that we cannot use, rather than to let them pile up in our own country for years to come.

Q. You spoke about the closed textile mills. We are told that to meet the unusual situation of the war there was great expansion in those mills and that there were more mills than are needed in our economy. Would you endeavour to keep them all functioning through providing enough purchasing power to keep people making up stocks which the people do not need in such quantities?—A. They would be far better to switch over to making something that is needed.

Q. Why did you suggest this morning that it would be a good thing to supply enough purchasing power to absorb the producing power of the textile mills?—A. Only in order to be able to put the textile workers back to work to produce the goods which we can use. But once that is done, we would call a halt.

Q. If you are going to spend money to do this, you are going to have to have an over-all control of the economy which I think would be far greater than has even been suggested by the socialists?—A. No.

Q. Are you really going to use money in this way? Are you going to say: We do not think that money should be used to develop textile mills but should be put into something else? That is going to take an over-all direction of the economy?—A. The situation will carry on as it is today. All the textile mills are in a position to obtain credit from the banking institutions to produce textiles which they can dispose of and they will be in a position to do it, and the others will have to close.

Q. But you said you would provide the purchasing power to keep them open.—A. I said that we would provide purchasing power throughout the economy of the country and as such increased purchasing power would be available to the people of Canada to buy any of the products which are made.

Q. I must have misunderstood you.—A. Some of them would stay open to the extent that the production which they turn out is required by the people; but beyond that, they cannot stay open.

Q. Today to the extent that people want those goods they are staying open and producing them. But you would inject more purchasing power into the economy in order to keep more of them open. It would mean that for other things which might have been produced, things which the economy could use—there would not be the labour for such things. Would not your system tend to keep the blacksmith shop going instead of the garage which is more needed.—A. We could get pretty ridiculous in this.

Q. I am pointing that out.—A. I am trying to suggest to you that you are trying to make something look ridiculous which we think is rather simple.

Q. I see.—A. In so far as the textile mills are concerned, if we have more textile mills in the country than are required to produce the goods needed in Canada, then some of them should be closed.

Q. And who will decide which ones shall be closed?—A. The banking institutions from whom they obtain their loans will decide which ones should stay open and which ones will have to close. They do this every day because if an industry cannot get a loan from the chartered banks for the purpose of continuing to operate then they will not be able to operate; that is where Mr. Towers' statement about credit-worthiness of the borrower comes into the picture.

Q. I shall not take up any more time, on that question. On page 91 of your brief, you explain how interest accumulates. "When I deposit \$1,000 in the bank as cash, under existing provisions of the Bank Act, the bank is in a position to make loans amounting to \$20,000 on the strength of my deposit. In practice, however, the bank only expands credit in the ratio of ten to one." Then you go on to suggest that the bank makes \$500 interest. Your suggestion was that on the \$1,000 or 50 per cent when you go in and deposit \$1,000 in cash the banks can then, on the strength of that deposit, lend out \$20,000. Would you say that is a correct statement —A. Under the provisions of the Bank Act today, yes.

Q. And if they should loan out \$20,000 there would have to be an increase in their cash reserves of \$1,000, wouldn't there?—A. The Bank Act makes provision for the expansion of credit on a twenty to one ratio.

Q. I understand that.—A. But in actual practice the operation is restricted to a ten to one basis.

Q. In order for them to increase their loans or investments to the extent of \$10,000 they would on the basis of their practise have to have an increase in their basic cash reserves of \$1,000.—A. They have it—I have given it to them.

Q. That is true, is it not?—A. Yes.

Q. You would walk into the bank and deposit \$1,000 and thereby increase the basic cash reserve of the bank?—A. Yes, if they did not have it before.

Q. Where would you get this \$1,000?—A. I could have got it—I might have had it for a long time—maybe in a safety deposit box or hidden away.

Q. But you are using this as an ordinary illustration that anybody who deposits \$1,000 permits the bank to turn around and loan \$10,000 against it? —A. If you are suggesting that I take it from one bank and put it in another bank it is not an increase in the cash reserve.

Q. What is the usual transaction? I am putting it to you that in 99 cases out of 100 the \$1,000 that I deposit—unless the Bank of Canada has bought a bond in which event then it would be new cash money—but outside of where the Bank of Canada operates there is no way in which the individual can increase the bank's ability to lend money whatever. In other words, the only way in which this would operate would be if the Bank of Canada had provided the \$1,000, is that not right?—A. No, because if I got \$1,000—

Q. From where?—A. Regardless of from where—

Q. But this is important—A.—the only exception would be if I took it from one bank one day and deposited it in some other bank in the same afternoon.

Q. Supposing you got it by virtue of doing some work. Presumably that would come out of someone's bank account?—A. Yes.

Q. And if it came out of someone's bank account their bank account goes down by the \$1,000 and yours goes up by a \$1,000, and that does not increase the banks' cash reserves?—A. I am telling you it does not—that transaction does not.

Q. I am putting it to you that when I deposit \$1,000 in the bank in cash under the existing provision of the Bank Act, in 99 cases out of 100 unless you have had a transaction with the Bank of Canada the banking system as a whole is not in a position to make bigger loans because one person gives you \$1,000 which comes out of his account and you put it in another account?—A. Not that type of transaction.

Q. Is that not a normal transaction? You were speaking of someone who has \$1,000 hidden away—most people are not in that category—I am talking about the average case.—A. I am talking about the illustration of the \$1,000 to illustrate the gross rate of return.

Q. After all, this brief will be quoted in different parts of Canada, and the average person will not realize that you meant only the case where the man had hoarded up \$1,000 and brought it in or the case where the Bank of Canada provided \$1,000—you do not make any exception. You say if I go in and deposit \$1,000 that the cash reserves of the bank are increased by that amount of money—that is not technically correct, is it?—A. On the principle involved concerning the increase of the cash reserves it is correct.

Q. What happens when the Bank of Canada puts out \$1,000 of new money which is put into one bank—say the Bank of Montreal—A. Fine.

Q. Then the Bank of Montreal can presumably make a loan. If they make a loan and that person cheques that money out and it goes into another bank, that is the last the Bank of Montreal can take advantage of the cash reserve?—A. Yes, the other bank does.

Q. So the \$1,000 only allows the bank to loan the amount of the deposit they accepted of \$1,000 and not 10 times that amount—is that not right?—A. Yes, it is correct. An individual bank in an individual transaction may not be able to maintain the basis but the system as a whole expands on a ten to one basis. This \$1,000 is given as an illustration of the returns of the banks on the expansion of credit in relation to the cash reserves.

Q. Is it not true—suppose this \$1,000—suppose that the person depositing was the tenth on the list and this \$1,000 had gone from bank to bank and from bank to bank until the banking system as a whole had loaned out \$9,000 and this last transaction was the tenth transaction and the money is brought back again. The banking system as a whole could not loan out another dollar?—A. They could not lend more than ten times the total.

Q. Suppose this was the tenth transaction—they could not lend another dollar?—A. No.

Q. So on half the transactions the largest amount they could loan would be \$5,000 and not \$10,000 the banking system as a whole?—A. On the first deposit \$10,000 could be loaned on the last nothing.—A. \$10,000.

Q. I said half.—A. Yes.

Q. So if they can loan out \$5,000 on the average in respect of each increase of \$1,000 in cash reserves you were wrong by 100 per cent?—A. I was using this as an illustration, and it is correct.

Q. But it is wrong!—A. No, it is correct!

Q. Let me take you over that again.

The CHAIRMAN: No, please, Mr. Tucker.

Mr. TUCKER: You do not want me to take him over that again?

The CHAIRMAN: No.

By Mr. Tucker:

Q. I am sorry, Mr. Maynard, I have not got more time. Do you remember after the end of the first war Germany began perforce to issue money to keep going? If the issuing of money actually paid people for the goods they produced—if that was the sole answer—why did the German economy finally collapse?—A. What period are you referring to?

Q. Following the first war. They followed this policy of yours completely?—A. No, they put out far more marks into circulation than they had goods available.

Q. If you could sell your goods to other countries and cancel the debt you are putting out money where you have not got the goods?—A. No, I am not suggesting we should put out money at any time or for any purpose—into the sale of wheat or increase of social services—to any greater extent than necessary to enable us to finance our consumption.

Q. But you said the wants of the people?—A. As soon as you increase purchasing power the people will be able to buy more goods.

Q. But you said their wants and give them enough to satisfy them?—A. In relation to the production capacity of the country.

Q. But if you are shipping out of the country half of your produce then?—A. If the grain is in the farmers' granaries they still have not the necessary purchasing power to buy the goods they want or need.

Q. But look, Mr. Maynard, to some extent they can borrow money against the day when those goods will be exchanged for other goods and then they will have real purchasing power instead of purchasing power in money which represents no goods?—A. Well, Mr. Tucker, I think you are familiar with the situation that is developing in Saskatchewan at the present time where the farmers cannot obtain money for any of their wheat in storage on their farm.

The CHAIRMAN: That debate is for the floor of the House. Let us continue with questioning on the brief.

By Mr. Tucker:

Q. You say that if prices are rising that is a sign that there is more purchasing power out than the productive machinery is able to supply?—A. Yes.

Q. Now, we have had rising prices steadily up to a year ago from the end of the war.—A. We have had increased prices and an increased supply of money in circulation.

Q. Would that not indicate that the banking system has put out money faster than the country could meet it?—A. Right after the war, yes.

Q. But at the same time you were indicating more of the same thing?—A. At that time, no.

Q. Well, at the present time prices are stable. If you put out more purchasing power, they will start rising again?—A. We are facing a situation in Canada today where we have goods that cannot be disposed of because money is not available. We are suggesting that the money should be made available in order to dispose of those goods and enable the production machinery to continue to function, or otherwise we will continue with unemployment.

Q. Where it is a matter of a foreign country, you should just print the money?—A. We suggest the same method should be used in both cases.

Q. There is one other thing, Mr. Maynard. I understood you this morning to suggest that if there was a tendency for the cost of goods to rise as a result of this policy of inflation or putting more money into the system than otherwise you would be putting in, you would subsidize the producer in order to maintain a just price. Do you still believe in that?—A. That is not the way I put it.

Q. That is the way Major Douglas put it.—A. What I said this morning was that it would be possible to use the subsidy, the principle of the payment of the subsidy, for the purpose of reducing prices of goods and reducing the cost of living.

Q. Yes, but it was a fundamental part of Major Douglas' policy, that it would not operate unless you maintained a just price, which meant a subsidy to the producer. He laid it down that this was an essential part of the system of Social Credit. Do I get the view that you have decided that you would not do that?—A. No, there are two principles involved in that respect. The fundamental principle is to increase purchasing power. Major Douglas recommended the just price as one means by providing for a subsidy on production of goods. We are suggesting as one of our alternatives the same thing.

Q. He also recognized that if you put out purchasing power like that it would have an inflationary effect on the price levels and you would either have to have rigid controls that would tend to keep down prices, or you would have to meet the situation by increasing subsidies to producers. Major Douglas faced that situation quite frankly, and I wondered if you were backing away from it.—A. We are not backing away from it except to this extent. We do not think it is necessary to impose rigid controls. We have had experience in the past where subsidies have been provided without rigid controls.

Q. So, as I understand it, you do not want rigid controls?—A. They are not necessary.

Q. Major Douglas took the attitude that if you did not want to have controls you had to have subsidies to the producer, because as the prices rose and as cost of production rose, if he was going to sell at the same price the state would have to subsidize him. Do you not admit that Major Douglas was right in that? That you either have to have controls, which judging by experience do not work, or subsidies, to keep the manufacturer in business and selling at the same price. Do you not admit that Major Douglas was right in that?—A. We do not think that Major Douglas is right in advocating rigid controls. We believe that it is best to provide a system of subsidies without controls.

Q. Your subsidies are to the consumer and not to the producer?—A. In the final analysis, to the consumer, with whatever machinery may be necessary to implement it. It may be through the retailer, or at the production level or at the wholesale level.

Q. You suggest that you might subsidize the producer?—A. I am suggesting that the subsidy should be provided at whatever source level may be most advantageous or desirable.

Q. If you subsidize the producer, you are going to subsidize him to keep him in business. Who is going to decide that one producer will be permitted to go out of business and another allowed to keep in business? Who will be the dictator to decide who stays in business and who does not?—A. When the subsidy was put on Alberta coal coming east, it was not paid on the basis that just this company or that company would get it. It was paid on the transportation of the product, and everybody benefited by it.

Q. There is a sign that some textile firms may be going out of business because they cannot meet competitive prices. Your idea is that if producers cannot meet prices of competition you will subsidize them to keep them in business?—A. No, not necessarily. It may be necessary to subsidize the cost or the fair price or the article, but if you are going to provide far more textiles than are required by the people, it is only the textiles that are to be disposed of that will be subsidized.

Q. Then the government will decide when they will not subsidize textiles. They will have to decide what businesses will live in the economy and what will die. Is that not a great power to give a government?—A. No, Mr. Tucker, that is not so.

Mr. TUCKER: I had several questions I would have liked to ask but I suppose I had better give way to another committee member.

By Mr. Hunter:

Q. Mr. Maynard, I have a few little points I would like to get clear. I understood from your evidence on Tuesday that the Bureau of Statistics would determine the wants of the people.—A. The Bureau of Statistics would make a survey of the physical assets of the country, the production capacity of the country, and the requirements of the people generally.

Q. They would determine the wants, in the way you put it?—A. Yes, generally speaking.

Q. To do this, then, these government officials in the Bureau of Statistics would have to decide what the people would want?—A. Roughly speaking, they could ascertain both the production capacity of the country and the requirements of the people of the country.

Q. Having determined what the people want, that means that in effect then you are determining what industry will produce?—A. No, the decision of industry to produce will be its own decision. If industry has information, either from its own private surveys or from the surveys made by the government, as to the requirements of the people, then industry will be in a better position to know what to produce, and how much to produce, and it can arrange its production program accordingly.

Q. Perhaps I am mistaken in this, but I would judge if you are determining how much purchasing power there is to be in purchasing these goods, obviously industry would have to be advised what they could produce. If they produced more than that, there would be no purchasing power. Am I right in that?—A. No, Mr. Hunter. I am sorry. The situation would not be changed substantially from what is going on today. Industry is producing today in conjunction with the assistance of the banking institutions, and industry is making surveys today to ascertain what in their estimation they can dispose of, and industry is not producing today unless it can see its way clear, generally speaking, to dispose of the products that it is going to make. There are undoubtedly many cases, and possibly a majority of cases, where industry will produce more than it is disposing of. That is why you have farm machinery piled up in Canada at the present time. But once you have reached that situation, industry stops producing. The survey we suggested should be made is for the purpose of ascertaining the physical assets and production possibilities in Canada and, generally speaking, the requirements and needs of the people in order to assist industry to go ahead and produce.

Q. I do not want to labour this point, but it appeared to me that when you determine what the people want and provide enough purchasing power you cannot control whether they buy apples or oranges and things like that, but there is only enough money to provide goods for a certain period of time. Does that not obviously place a limitation on the domestic sale of all those products in Canada?—A. Yes, you have a limitation now.

Q. Yes, but here it is not being determined by the free play of trade. It is being determined by the Bureau of Statistics and the government.—A. In an advisory capacity for the purpose of ascertaining or advising industry.

Q. But if it is going to be enforced by the government through the Bank of Canada after these civil servants have determined what the people want?—A. Did you say "enforced"?

Q. "Enforced", yes, because it is through the Bank of Canada that this money will go into the flow of money. That is correct, is it not?—A. Yes, but as far as enforcement is concerned, there is no question of enforcement.

Q. It is enforced in the sense that money is made available?—A. To buy the total given amount of goods.

Q. Provided by the Bank of Canada I presume on the instructions of the Bank of Canada which in turn is advised by the Bureau of Statistics.—A. The decision as to the amount of money to be circulated will not be made by the Bureau of Statistics. It will be made by the officials of the Bank of Canada in the light of the information furnished by the Bureau of Statistics.

Q. I am suggesting that the Bureau of Statistics advise.—A. That is right.

Q. I am not trying to be critical, but it strikes me you are heading right into an economic dictatorship?—A. That is the one thing we believe we can stay away from because it is not necessary. All that is required is for some agency to be able to ascertain the amount of purchasing power required to enable the people to buy and consume the goods we are able to produce. That is the crux of the matter. And once that position has been ascertained, it is not a question of regulating industry for the purpose of purchasing this or that.

Q. Even if it is not a direct control it strikes me you are immediately entering into indirect control and you would sooner or later be forced into the role of an economic dictator.—A. Not at all, I cannot see it.

Q. Let us change to another point, the question of the subsidies. You would put on I suppose quite a broad list of products in Canada to give the people a low price so that they can buy them? Is that right?—A. The subsidy is recommended as a means of putting more purchasing power in circulation and reducing the cost of living. It is one of the alternatives listed as a means of increasing purchasing power.

Q. Now, when you put those subsidies on a variety of articles for consumption would those subsidies go on import articles as well?—A. Not necessarily. That is why I suggested this morning the subsidy could be used for the purpose of being able to dispose of Canadian products in competition with foreign products.

Q. I presume if it is a product not made in Canada and comes in here then the same subsidy would be placed on it? If it is a product not manufactured in Canada you would still put a subsidy on it?—A. Not necessarily. If you are going to have a tariff on one hand there is no use putting a subsidy on the other hand because you are working against yourself.

Q. You may not be intending to do this as a protection when you subsidize these articles, but are you not doing the same thing as if you put a tariff on the imported article?—A. The tariff increases the cost of the article, whereas the subsidy reduces it.

Q. As far as competition is concerned, unless you put the subsidy on the imported article as well you are giving a benefit to the Canadian manufacturer or producer.—A. We are doing that with the tariff today.

Q. You would be doing that?—A. Certainly. We are doing it now.

Q. I understand your philosophy is not a free trade philosophy?—A. No, not to the extent that we would advocate the importation of foreign goods and put our Canadian labour out of work.

The CHAIRMAN: Do you know anybody that does.

The WITNESS: No.

Mr. QUELCH: Not even the liberal government.

The CHAIRMAN: No. You can be sure of that.

By Mr. Hunter:

Q. I am trying to determine your philosophy and I judge tariffs with you will be a weapon to be used for whatever purpose you wish to accomplish and you would have no reluctance to use them if you thought you could help the Canadian manufacturer.—A. Not any more than it is being used today.

Q. You might go further.—A. It all depends.

Q. You might be a high tariff party?—A. We might.

Q. One of your methods, the obvious way you are going to increase the purchasing power of the country is to put this interest free money into circulation and the method you suggested was through the social services, and that was to put more money into circulation so that the surplus will increase the purchasing power to allow people to buy more. I wonder if we get the corollary of this. If there is a decrease in goods, do you decrease the security payments?—A. If you have more money in circulation than is required to purchase the goods available, you have to decrease the amount of money in circulation. That can be done.

The CHAIRMAN: That is the time I want you to be in office.

The WITNESS: That can be done through taxation, but not necessarily reduce all social service benefits.

By Mr. Hunter:

Q. Every time you raise the social service benefits and get to a period of shortage of goods you start decreasing all your social security measures even if increased quite high. Every time you have a surplus of goods you increase your social security payments again?—A. No. I was suggesting social security benefits as only one means of putting purchasing power in circulation. The practice we have been carrying out in Alberta is this. We have been very fortunate in some of our revenues and we have been able to increase the standard of our social services in Alberta to a fairly high level. We have refused, however, to increase our standard of social services by using capital revenues obtained from the sale of mineral rights for the purpose of doing so, because if we did and we did not obtain in the future the same returns from the sale of mineral rights that we enjoy now, then it would be impossible to maintain the standard of social services established. Consequently we can maintain the level on the present basis and continue to pay these social services even with a drop in government revenues. I am giving that as an illustration. That is just good government administration and I visualize any government in office in Canada would do that. It would be criminal to raise the standard of social services so high you would not be able to maintain them.

Q. In a period of a shortage of goods your remedy would be heavy taxation?—A. Yes, or reduction of the subsidy.

Q. I am quite interested in this problem of the surpluses you talk about and I am wondering how you determine what is a real surplus and not just a lack of purchasing power? I can see it in the case that we can eat only so much flour and bread, but take for instance a television set which is a popular item today. How do you determine whether you have a surplus of television sets, or a lack of purchasing power for television sets, which if there is a surplus we give them to India or somewhere, or if not we increase the purchasing power?—A. We could give you again the example of the motor car.

The CHAIRMAN: Mr. Macdonnell covered that point thoroughly.

By Mr. Hunter:

Q. That will again be determined by the Bureau of Statistics?—A. Well, there are goods you are going to have in oversupply undoubtedly, but whether they are goods that people want is a different matter.

Q. And when you have a real surplus and it has been determined you have a real surplus, suppose it is a product most countries have too much of and you have that surplus, what do you do in that case?—A. You would have to restrict production. If everyone has a surplus of a commodity that cannot be used by anyone you would have to restrict production.

The CHAIRMAN: I imagine you would have to have controls to do that, Mr. Maynard?

The WITNESS: No, you would not necessarily require controls. If the people are unable to dispose of their supply of zinc and they would not continue to produce it.

By Mr. Hunter:

Q. Originally the question of equality of income came up and you said that it would be utopia. You were not serious about that, were you?—A. I am sorry, but I did not get your question.

Q. Somebody mentioned equality of income, and you said that it would be utopia. You were not serious about that? You did not want everybody to have the same income?—A. No.

Q. That was just a remark. And in the interpretation of the Prime Minister's statement, although I cannot speak for him, I would point out to you that under the Colombo Plan which is for the purpose of enabling those under-privileged countries to produce more, the help is not so much aid in the form of food as it is aid in the form of equipment and providing facilities.—A. That is right, but the principle is the same. And I suggest that the principle can be extended. That is all I suggest in so far as our wheat is concerned.

The CHAIRMAN: Now, Mr. Stewart.

By Mr. Stewart:

Q. I should like to go back to the subject which I was discussing a couple of days ago, namely, the wheat farmer and the miller. The witness agreed that the wheat farmer got paid his \$100 and his cost of production would cover it. Do you agree with that?—A. Well, I remember your illustration but I do not want to admit your position now. Do you want me to deal with your illustration?

Q. I said that a farmer had produced wheat and his entire cost of production including his profit to himself was \$100 and that when he sold that wheat for \$100 his cost of production was recovered. Do you agree?—A. Carry on with your next illustration.

Q. I asked you if you agree?—A. No. I want to deal with it.

Q. I am asking you a very elementary question.—A. I want to explain it. I want to explain your illustration.

Q. Let us take it step by step. The entire cost of production including the profit, amounts to \$100—when the farmer gets his \$100 for the sale of his wheat he has covered his cost of production; is that right?—A. I would like to take your illustration by starting with the baker and working down.

Q. Well, you are the witness and I am doing the questioning. That may be unfortunate. I choose to start with the primary producer.—A. I will not agree.

Q. You do not agree that when the farmer gets his \$100 his cost of production is recovered?—A. I will not agree at this stage.

Q. Where is the deficiency of purchasing power?—A. I should like to carry on with the illustration.

Q. Let us start with the farmer.—A. All right. He gets \$100 and out of the \$100 he is paying wages; he has some profit, and he is taking some of that \$100 with which to pay the interest on his investment, or the depreciation on his farm, and he has to save some for himself. Now, whatever he pays

back, or what he pays by way of deficiency—I mean depreciation, and what he is saving results in an amount that is not available as purchasing power.

Q. His expenses have been \$100 including depreciation, interest, wages, and everything. And he receives \$100. Is that \$100 not available as purchasing power?—A. If you take out of the \$100—if you are assuming that \$100 is not all that he got, but that he has also received \$150, and \$50 has been set aside for depreciation—

Q. No, no, please. The entire cost to the farmer is \$100 and that includes his depreciation, his bank charges, his wages, his seed and everything else.—A. That is fine.

Q. And he receives \$100 in selling that wheat. Are his costs of production covered?—A. Major Douglas points out that in that case the amount that is required for depreciation or the amount that is required for savings, or the amount that is required for interest to the bank is not available purchasing power, in the case of that \$100.

The CHAIRMAN: Did I not state this morning that it was not possible for us to settle that argument? I am told that it is also not possible to call Major Douglas as a witness. You are the witness. We are not concerned with Major Douglas or Stephen Leacock. Let us hear what you have to say.

The WITNESS: I support Major Douglas' viewpoint in this.

The CHAIRMAN: Give us your own viewpoint.

The WITNESS: The amount that is set aside for depreciation, interest payment, and savings is not available as purchasing power.

By Mr. Stewart:

Q. You say that when the farmer gets his costs of production, he really does not get his cost of production?—A. In the illustration you give there must be some of that money which is set aside for depreciation on his farm, and for savings, and for interest and so on.

Q. Let us say that he paid \$50 for seed; \$10 for depreciation, \$10 for savings, \$10 for profit; and \$20 for wages. Let us assume those are the costs of production and they total \$100. Then he gets \$100 for the sale of his wheat. Are his costs of production not covered?—A. No. There are \$80 available as purchasing power.

Q. I said that he got \$100.—A. He got \$100, but there was \$20 of it not available.

Q. But I said that he got \$100 for the sale of his wheat.—A. There is still \$20 not available as purchasing power.

Q. It does not matter. There is \$100 in the money stream, is there not?—A. That is fine.

Q. And there is a production of \$100, a production valued at \$100. You agree that there is \$100 in the money stream, and therefore there is no deficiency of purchasing power?—A. I agree that there was \$80 available as purchasing power, and the other money was not available as purchasing power.

Q. But the farmer has received \$100.—A. That is right.

Q. And he put it all in the bank. What do you say to that?—A. But it still is not available as purchasing power.

Q. But he has got \$100 in cash.—A. Even so.

Q. And if he has got any cash, it is available as purchasing power when and if he chooses so to use it?—A. I say it is not available as purchasing power.

Q. What does he do with the money then?—A. He might invest it.

Q. That means he gives it to somebody else?—A. That is right, and it is then in another cycle of goods.

Q. There you have \$100 put back into the stream against \$100 worth of commodities.—A. In the second cycle you have the farmer's \$20 available for the production of additional goods.

Q. Did you not say this was a dynamic economy and that these things are going on all the time?—A. Absolutely.

Q. There are thousands of people saving and spending, and in a dynamic economy the slack is taken up?—A. That is right to this extent, and aggravates the problem. As you proceed to save and to invest the profits from production, what you save enables you to produce more and more and in every cycle you will have less and less purchasing power, and in the total result your deficiency of purchasing power is multiplied.

Q. Are you saying that his profit is not spent?—A. No. His profit is spent.

Q. Or his savings?—A. No.

Q. Here are savings, let us say, of \$10.—A. A savings of \$10 and the depreciation of \$10.

Q. That is an inherent deficiency if he spends the money on new capital goods.—A. If his investment is in new goods, but that investment does not represent available purchasing power in the cycle of his production.

Q. You are coming back to the static economy?—A. No.

Q. Let us assume that the farmer is going to start production in the spring and needs \$100, so he goes to the bank and gets \$100 to cover the cost of production. At the end of the year he sells his wheat and receives \$100 and pays that \$100 back to the bank. That extinguishes his debt. Isn't that right?—A. That is right.

Q. And so \$100 worth of goods went into the system as the result of the bank loan?—A. That is right.

Q. \$80 has been spent for expenses, and then this \$20 you mentioned is not spent.—A. In this case you have an additional problem because you have interest on top of \$100.

Q. No. I included that in his expenses. It is not \$106. It is \$100.—A. But the interest represents something that is not available. in the stream of purchasing power for the purchase of those goods.

Q. He had paid his interest to the bank?—A. That is right.

Q. And what is the bank going to do with it, hoard it?—A. It might cancel it.

Q. You say they are going to cancel it?—A. They might keep it to broaden their reserves.

Q. It is the bank's profit.—A. The banks may distribute it or reinvest it.

Q. And so it will come back into the money stream.—A. In another cycle.

Q. But it is going to come back. You said chartered banks did not have funds to finance consumption. They have only funds to finance production. In this case the banks are financing consumption.—A. No. They have financed production.

Q. But they lend \$100 to the farmer who in turn paid it out in wages, interest, and other costs which are used by consumers to buy consumer goods.—A. The whole \$100 is not available for the purchase of goods which have been produced.

Q. The money is still somewhere; is it not?—A. Yes.

Q. And you said that additional money should be given by the government to make up for the lack of any purchasing power.—A. That is right.

Q. And the original money is still in the system?—A. It is in another cycle of production.

Q. But now we have \$120 in the system?—A. Yes, in the other cycle.

Q. If the one who hoarded this \$20 decides to spend it—we are going to be in an inflationary spiral, are we not?—A. It has been admitted that the time lag has reached 40 or 50 or 55 years before the investment that has been set aside out of the accumulated purchasing earnings is made available as purchasing power.

Q. That is conceivable, but in a time of high production and demand it is not so?—A. It may be restricted below that, but it is still quite a lag.

Q. Over and above that which is already over there and which is adequate to buy what is produced?—A. Not adequate to buy what is produced.

Q. If it is there?—A. But it is not there.

Q. But you said it was there?—A. But not for the purchase of the goods that were produced.

Q. Are you arguing then that the farmer's workers are the only ones who can buy that which the farmer produced?—A. When you take the economy as a whole you are not only dealing with the farmer but with everyone else—but the same problem arises.

Q. There are other similar examples of saving and investment happening every minute of the day—so you have a dynamic economy?—A. You still have the deficiency, Mr. Stewart. It is not only a question of theory, but a question of actual fact. It is recognized that deficiency exists. I am surprised anyone challenges the statement it exists.

Q. Would you say it existed in 1948?—A. In 1948? No, not in 1948.

Q. Then I have challenged it. Obviously it does not always exist?—A. But why does it not exist in 1948?

Q. Because you were in an inflationary period?—A. What caused it? It was the purchasing power that was put into circulation during the war years against which the production of consumer goods was not available. That is what caused it, along with the increased cash reserves issued by the Bank of Canada.

Q. To some extent we see eye to eye. Let me go on to the last question I want to ask you. The other day you said if there was over-production in certain areas there would have to be subsidies to consumers—but say there was an over-production of canned salmon—in certain areas—did you not say that?

The CHAIRMAN: He did not mention a specific item.

Mr. STEWART (Winnipeg North): Well I am.

By Mr. Stewart (Winnipeg North):

Q. This is a hypothetical case. We are arguing on a hypothesis all the time. Let us say there was an over-production of canned salmon and shoes and textiles and the Bureau of Statistics and the Bank of Canada decide that \$100 million must be issued to absorb the over-production. Now, how do you keep the recipients of that money from buying T.V. sets?—A. You do not, Mr. Stewart. The economy itself will determine—I mean the people themselves will determine whether they want to buy shoes, television sets or some other goods. If they do not buy the goods that are available then the people who are producing the goods will stop producing them.

Q. Your scheme does not of necessity help those in the industry suffering from over-production?—A. It will help industry and the whole economy. You have more purchasing power available to the economy generally to buy production?

Q. When you issue these consumer subsidies you are not going to tell people what to buy?—A. Not any more than you tell them to buy wheat when we have a surplus of wheat.

Q. If they want to buy Scotch whiskey, it is all right?—A. Whatever they want.

Mr. STEWART: I may be all for the subsidies!

By Mr. Macnaughton:

Q. Mr. Maynard, referring to pages 108 and 109 of your brief, I was very much interested in the illustration which you used there and with which I think you were trying to demonstrate your theory that the greatest part of the national debt has become centralized in a few hands, largely in the hands of financial institutions. Those are almost your own words. At the top of page 109 you say:

Many a campaign—speaking of war bonds—was “put over the top” by the simple expedient of having people borrow \$200, \$300 or \$500 from a bank and give the bank the victory bond as security.

Now, it seems to me that a correction is due, because under the Fourth Victory Loan instructions issued by the Bank of Canada to the chartered banks, in section 12, it says that “subscribers under the official instalment plan must not be asked to complete a form of hypothecation”; in other words, that they cannot pledge their bond as security to the bank under the instalment purchase plan, whereas you say the banks simply take it as security. Do you not think that your reference to taking the bond as security is a mistake in your brief?—A. Mr. Macnaughton, I know personally that it has been done.

Q. I do not, but I am going by the instructions of the Bank of Canada. If it was done, it was done illegally, was it not?—A. Whether it was done legally or not, I am not prepared to say, but I know that it has been done.

Mr. FLEMING: Was the offence prosecuted in Alberta?

The WITNESS: It was not an offence. It is not against the law. It is against the regulations of the Bank of Canada.

The CHAIRMAN: The witness says it was done.

Mr. MACNAUGHTON: He knows of one case.

The CHAIRMAN: He knows it was done and so states.

The WITNESS: Might I make a further statement. It has been pointed out that the statement referred cast a reflection on the banks, in that an impression was left that the banks carried out this procedure and at a certain time pounced on the bondholder and said the rate has been increased. I am sorry if that implication was there, because that is not the intention. I apologize to the Bankers Association for giving out the impression in this brief that bankers, as it were, sneaked up on an individual after taking his bond and all of a sudden without notice raised the interest rates. I have been advised by one of the bank managers that this was never done without due notice having been given beforehand.

By Mr. Macnaughton:

Q. That would strike out the words on page 109: “In due course the bank would notify the bondholder that henceforth the interest rate on his loan would be increased by one per cent.”?—A. No. In due course they were notified.

Q. Perhaps we had better start on my second question. The illustration you have given leaves the impression that during the course of the instalment purchase—that is the important thing I want to get across—the bank would notify the purchaser that henceforth the interest rate on his loan would be increased by one per cent, and thus force the purchaser to abandon the bond to the bank, to retire his loan. Is that what you mean?—A. The bondholder, rather than pay the four per cent, or the increased rate of interest would dispose of the bond and settle his indebtedness with the bank. He would do it in two ways, either by turning the bond over to the bank or selling it and turning the proceeds over to the bank.

Q. With the increase of one per cent?—A. He would not pay it. That is why he disposed of the bond in order to avoid paying the increase.

Q. Did the bank ever exact a one per cent increase, because you have the instructions from the Bank of Canada which say that they cannot?—A. Not at the time that the bond is taken on deposit, no. Later on, yes.

Q. During the time of payment on the bond?—A. This was not a purchase by way of instalment. The procedure outlined here refers to an outright loan by the bank of \$100 or \$500 for the purpose of buying a bond and the bond would be deposited with the bank.

Q. I have looked up the details of these bond purchase plans and find that this statement about increase in interest rate also requires modification. In the first place the coupon rate on the bond—and it is a matter of record—is the interest rate which the bank was charging. There is no discrepancy there?—A. At the outset?

Q. At the outset.—A. In many cases there was no actual purchase of the bond. For instance, let me give you an illustration. I am asked to buy a victory bond and I go to the bank and tell the bank "I want to buy a victory bond; will you lend me \$100?" and they charged me the same rate of interest as the victory bond. I do not pay the bank anything on the bond. Later the bank increases the rate of interest on my loan and I dispose of the bond.

Q. I do not agree with you, but in any event if the purchaser was in good standing in his purchase at the time he took out the application for the bond with the bank do you not agree that every payment he made he was increasing his equity in the bond, and eventually he would have paid 100 per cent, and therefore he became the owner of the bond?—A. I am not referring to instalment purchases here.

Q. As a matter of fact the bank could not under its instructions from the Bank of Canada charge any more than the coupon interest rate which, let us say, is three per cent, and the bank did not have the right to come along and charge more?—A. It was done, I know.

Q. Do you mean that after I have purchased my thousand dollar bond and I then want to take a loan with the bank and then I may deposit that bond for which I paid over 12 months, that transaction becomes a separate loan transaction and the bank can charge more?—A. I am referring to the type of transaction where I borrow from the bank for the purpose of paying for the bond, and the bond is deposited with the bank and in due course the interest rate is increased on my loan to the bank and I dispose of the bond for the purpose of retiring the loan.

Q. I see we will not get far on that. Could I refer you to pages 91 and 92. I have a few questions. In the wording on these pages you have drawn attention to the fact—and I do not dispute it—that the banks cash is usually equal only to about 10 per cent of its deposit liabilities. You agree with that?—A. Yes.

Q. I notice, for example, in the March, 1954, issue of the Bank of Canada statistical summary that in 1953 the cash of the chartered banks in the form of Bank of Canada notes, plus deposits standing to the credit of the banks on the books of the Bank of Canada, have averaged about \$883 millions, or ten point two per cent (10·2) of their Canadian deposit liabilities. That is shown in this statement for the Bank of Canada for March, 1954, at page 38. I do not think there is any dispute on that.

The CHAIRMAN: What is your question. Please don't make statements.

By Mr. Macnaughton:

Q. Do you agree that the bank's holdings of cash—and I am referring only to cash—produce no revenue whatever?—A. Yes.

Q. And our Bank of Canada notes do not bear interest and deposits with the Bank of Canada bear no interest?—A. That is fine.

Q. We agree on that. Would you agree that the banks' cash is one of the assets on the asset side of the balance sheet?—A. Yes.

Q. And on the other side under liabilities we have the bank's deposit liabilities?—A. Yes.

Q. In plain terms that is what the bank owes us and we have the right to go and take it out any time we wish. We can step up to the wicket and ask for it and the bank has to be ready to pay it.—A. Yes.

Q. Do you agree these deposits are the assets of the people who have accounts with the banks?—A. Yes.

Q. Do you agree also that these deposits are, conversely the liabilities of the banks?—A. Yes.

Q. They are the funds the bank owes the public and may be called upon to pay at any time?—A. Yes.

Q. I also notice from this same statistical summary of the Bank of Canada that in 1953 the deposit liabilities of the chartered banks averaged about \$8,600,000,000?—A. That is right.

Q. My question is, will you agree that against these very large deposit liabilities the banks held other assets in addition to the \$883 millions of cash to which I have referred?—A. Yes, they have other assets.

Q. Would you agree that in addition to the cash we have been talking about the banks hold other assets in the form of securities and loans?—A. Yes.

Q. So that we can agree that a balance sheet in that sense balances, that the assets side would equal the liabilities side?—A. Yes, Mr. Towers has told us a loan creates a deposit.

Q. Would you not agree therefore that at any given level of deposits the total of the banks' cash, securities, loans, and any other assets such as real estate, cannot exceed the total of the banks' deposit liabilities and such other liabilities as the banks may have—capital, rest funds, etc., all of which other liability items are relatively small?—A. That the total of the assets cannot exceed the liabilities.

Q. Yes.—A. I have not got the statement before me.

Q. In a general theory?—A. No. If my assets did not exceed my liabilities I would be disappointed, but it is usually the other way.

Q. All I want to know is whether you will agree that the banks' assets cannot exceed its liabilities?—A. The liabilities could exceed the assets.

Q. Put it which ever way you like. A bank cannot create money just for its own use?—A. What is your point?

Q. Simply this, on a balance sheet you have assets and liabilities and the liabilities and assets must balance?—A. As I recall any statement of a balance sheet you have your liabilities on one side and your assets on the other side; then you have either a loss in order to make the total balance or it is a profit in order to make a total balance.

Q. Well now, would you agree that the Canadian people are not compelled to keep their money in any bank? They could put their money any place they want, even in a sock, if they like?—A. Surely.

Q. And therefore if they decided to take 25 per cent of their deposits away from the bank, that the bank's assets to that extent would be reduced by 25 per cent?—A. Oh, the banks would not be able to pay them if they all went at once to get it.

Q. Let us not assume that. Just think of the 25 per cent. And you will agree that a balance sheet must balance, and that if the banks pay off 25 per cent of their deposit liabilities, would not the banks have to reduce their assets by a like amount in order to pay off the depositors?—A. They would have to reduce their loans, since a loan creates a deposit, and a cancelled deposit retires a loan.

Q. Would you agree that the amount of assets that a bank can hold at any one time depends on the willingness of the public to leave their funds on deposit with that bank?—A. Yes.

Q. It depends on the willingness?—A. Remembering that the loans are made at the request of the people and the willingness of the bank to lend, yes.

Q. Well we have agreed up to the present that a balance sheet must balance. Let us suppose that a bank had \$1 billion of deposit liabilities. And let us suppose that on the asset side it had \$100 million in cash. That is about 10 per cent ratio, is it not?—A. Yes.

Q. Would you agree that loans and security holdings would total about \$900 million, so that the liabilities would be matched by the assets? Total assets equal total liabilities?—A. Well, I would be awfully surprised if the statement of the chartered banks would not show a surplus of assets over liabilities.

Q. We are talking about assets and liabilities at any particular time, and that a balance sheet must balance.—A. It only balances in so far as you put in the liability side a surplus of assets in order to get the same figure.

Q. Let us suppose that instead of holding \$100 million in cash—

The CHAIRMAN: Mr. Macnaughton, the witness is having great difficulty in understanding your questions. I thought I was the only one, but he tells me he too has great difficulty.

Mr. MACNAUGHTON: I thought he was answering very well. I am just leading him along.

The CHAIRMAN: Leading him to what and where.

Mr. QUELCH: To 6 o'clock.

The CHAIRMAN: To conclude that a balance sheet must balance is not a matter that requires twenty minutes.

By Mr. Macnaughton:

Q. I want him to agree with me that the asset side of the balance sheet and the liability side of the balance sheet must agree at any particular time, and that the bank simply has not got a surplus of money tied away in some little safety deposit box, and that the assets of the bank subsist on the deposits of those people who deposit their money with the bank and to whom the bank is liable to account for it at any given time. Do you agree with that?—A. With the qualifications I set out earlier, yes.

Q. I simply put it this way: do you agree that such a bank could have no loans and no security holdings except possibly a small amount that would represent an asset offsetting the bank's paid-up capital, rest fund, and undivided profits?

The CHAIRMAN: If you cannot answer it, just say so.

The WITNESS: I have not got the gist of the question.

By Mr. Macnaughton:

Q. I am sorry if you have not got the gist of the question.—A. I am sorry, too.

Q. Would you agree that if a bank is to do its job as a lender of money to industry and to individuals, or to governments and municipalities, through its holdings of securities, such bank can only keep a relatively small proportion of its assets at any one time in cash? In other words, it has to make its money work?—A. That is right.

Q. Well, would you agree that since a bank's assets are the security for its deposit liabilities—do you follow me there—which in turn are the bank accounts of millions of depositors—the bank's loans and security holdings should be carefully chosen and made as safe as possible?—A. Yes, I deal with that in the submission.

Q. It is no secret, is it? It costs money to pay the people who make bank loans and who administer the loans and other assets after they are on the bank's books?—A. It costs money to operate a bank, yes, that is right.

Q. Do you agree that it also costs the banks something to pay interest on savings deposits and to pay the clerks, tellers and all the other people who make the entries, take in and pay out money, transfer funds and do all the other things connected with the servicing of the deposits the Canadian people have in the banks?—A. Yes, it costs money to do so, that is right.

Q. Do you agree with me therefore that the revenue the bank obtains from its loans and securities is not net profit? The administration costs must be taken into consideration, while on the liability side, the deposit side, there are also the costs of servicing deposits?—A. You are referring to the rate of return?

Q. Yes, you refer to a gross rate of return?—A. Yes. Have you got the word "gross"?

Q. Yes, on page 91—no, I wrote in the word, I think.—A. Yes, that refers to gross rate of return.

Q. That does refer to a gross rate of return, not a net?—A. Yes.

Q. Then in the light of all this do you not think it misleading to compare, as you do on page 91 of your brief, the gross income (of \$500) of the banks with their cash (\$1,000)?—A. No, that is the gross rate of return. Of course, the bank has service charges and operating expenses and so on to take off this.

Q. On page 92 you said something about profits of the banks and in the back of your brief you file a table under the heading "Statement of profits and dividends of the chartered banks"?—A. Yes.

Q. Well, I presume you must have seen exhibit No. 10 of the committee's proceedings at page 794 which refers to the rates of dividends on paid-up capital and (in brackets) on shareholders equity for the fiscal years 1944 to 1953 and the footnote at the bottom says: "Shareholders equity consists of paid-up capital, rest account and undivided profits at fiscal year ends of the banks." The overall average for all banks for 1953 is 4.9?—A. That is right.

Q. Do you not think that is a fairer statement of bank profits than the one you gave which I think is around 16 per cent?—A. No, Mr. Macnaughton. The fairest statement would be to determine the rate of return in relation to the market value of the stock because that is what the shareholder gets and if the shareholder pays \$300 for a par value share of \$100 and the dividend rate is 16 per cent that 16 per cent rate is on the par value of \$100 and not the investment of \$300.

Q. You are relating the banks profits today to the par value of bank shares, which is only a fraction of the money invested in the banks by the shareholders?—A. That again depends on what you mean by shareholders. The rest fund I am not considering as being invested by the shareholders because it was never distributed to the shareholders to start with. The contingency reserve is in the same position.

The CHAIRMAN: Have you any more questions?

Mr. MACNAUGHTON: Yes, I will finish up with this.

The CHAIRMAN: If you cannot finish up now, we will give you time later.

By Mr. Macnaughton:

Q. In other words, if we want to talk about the profits of the banks surely it would be fairer and certainly much more sensible to talk about profits either in relation to the size of the assets the banks administer or in relation to the shareholders' total investment, not just paid-up capital, most of which is money paid in many years ago. We have to include also those funds which

have been plowed back in undistributed profits and paid in the form of premiums on new stock issues—you follow me there—both of which are also shareholders' investment in the business.—A. That is a question of opinion, Mr. Macnaughton. It would be a fairer statement to relate the dividend rate to the market value of the stock.

Q. We will let it go at that.

The CHAIRMAN: I still have some gentlemen on the list. We will adjourn until 8 o'clock this evening.

EVENING SESSION

The CHAIRMAN: Gentlemen, I see a quorum. Mr. Macnaughton?

Mr. MACNAUGHTON: I have two short questions, Mr. Maynard. I do not think it will take us long. On page 91 of your brief you mention in the last paragraph that the chartered banks can increase their cash reserves by selling bonds either in the market or to the Bank of Canada or by borrowing against these bonds from the Bank of Canada. For how long a term do you think these borrowings should be, to enable the banks to expand loans against them?

Hon. Lucien Maynard, Attorney General of the province of Alberta, recalled:

The WITNESS: I understand that usually the bonds deposited with the Bank of Canada are for a very short-term loan. For instance, a situation may arise such as arose in Alberta at the last sale of mineral rights where there was \$35 million in certified cheques deposited with the government for the purchase of some of our mineral rights. If the \$35 million had been all on the one bank that would have been quite a dent in the cash reserve position of the bank. Now, under such conditions I would imagine that the facilities of the Bank of Canada would be available to the chartered banks for the purpose of enabling them to cover such a situation immediately.

By Mr. Macnaughton:

Q. Now I come to my last question. Do you visualize a more or less permanent expansion of credit against these borrowed reserves?—A. No. Well now, I cannot speak for the Bank of Canada, but I would imagine they would be temporary.

Q. And just to complete the record—I do not think you were here—but on page 283 of the proceedings of this committee we were discussing the National Housing Act, and Mr. Towers stated that chartered bank borrowings from the Bank of Canada should be limited in term to a few weeks or a month. On page 296 of the proceedings of the committee discussing the National Housing Act Mr. Atkinson, who is president of the Canadian Bankers' Association stated his view that such borrowings would normally be for a matter of days.—A. Normally they are for the period to cover such transactions as I mention. Whether they can be for a longer period would be a debatable point.

The CHAIRMAN: Dr. McMillan?

By Mr. McMillan:

Q. Mr. Maynard, I am concerned with the aspect of the possibility of inflation under your proposal. On page 104 of your brief you suggest the elimination of the sales tax or reduction of the personal income tax for the lower income brackets. If we had elimination of the sales tax we would lose \$725 million revenue?—A. Right.

Q. And I take it that you favour the sales tax rather than the income tax?
—A. That is right.

Q. Now, the social service measure costs \$906 million?—A. Yes.

Q. And if we are to increase that by 50 per cent that is another \$450 million?—A. Right.

Q. In other words, you would widen the differential between the income and expenditure by \$1.17 billion?—A. No, doctor. I am sorry, doctor. If that were to be done all at once of course that would be the result.

Q. But eventually you would reduce it all?—A. Yes, but only when it was found it was necessary to do so—again I have to go back—for the purpose of meeting any deficiency in the purchasing power that might exist.

Q. Would this differential be made up by the Bank of Canada in its issue of new money or new credit?—A. Yes.

Q. And would that be done year after year?—A. Yes, to the extent necessary to meet any deficiency in purchasing power—that is the limitation.

Q. Would that not produce inflation?—A. No, doctor, as long as we have increased production to go along with it. If we do not have increased production of goods we would of course have inflation.

Q. I was interested in one answer you gave to Mr. Hunter. You said you would increase taxes at the time when goods were in short supply?—A. When we had a surplus of purchasing power in circulation.

Q. Would that not be the time when people were less able to be taxed?—A. No, because there is more money in circulation than goods then.

Q. As we put more money into the money stream how would our dollars stand up with foreign currencies?—A. Well, the whole question is in relation to goods. If we require the money to distribute the goods we have, well then the money should be put into circulation. The question that I ask is, should that money be put into circulation under the present method of the operation of the chartered banks or should some of it be put into circulation interest free by the Bank of Canada if the money is required.

Q. The money would not be in relation to goods in other countries as it is carried on now?—A. That may well be, but after all, I think we should look after ourselves first and see to it that our own people here enjoy the standard of living our physical assets are able to provide.

Q. You have no idea then how our money would stand up in foreign currency markets under those conditions?—A. No, I think it is a secondary factor.

Q. On page 97—I just want to ask one or two more questions—under proposal number 3 you have listed five items, A, B, C, D and E. Under “B” you ask for the gradual retirement of the federal public debt. That would not apply to provincial or municipal debts?—A. No, that is correct.

Q. And under “C”, that would be in payment of federal capital expenditures?—A. Yes.

Q. And under “E”, payment of consumer dividends, what do you suggest as a mechanism of distribution?—A. Something along the same line as the payment of family allowances. There has been no serious consideration given to a method. This is the last resort possible used for the purpose of increasing purchasing power in the event it is necessary to do so, and I think it would be some time in the future before we would reach that position.

Q. You do not think then that more money in our system would create higher prices for goods—we would have more dollars after the goods?—A. No. Inflation, as I indicated in this submission, requires two conditions—an over-supply of money with rising prices for goods. You can keep prices down

through these proposals, particularly the implementation of the subsidy, with the result that the increase in the money supply, as long as the goods are available, will not cause a situation of inflation.

Q. Concerning our manufacturers—in order for them to compete on the market, you would help to meet their costs by subsidy?—A. With the volume of production that would be created with the implementation of these proposals, I would rather visualize a situation where the manufacturers' costs would be reduced.

The CHAIRMAN: Mr. Weaver?

By Mr. Weaver:

Q. Mr. Maynard, on page 102 under the heading "Consumer dividends" you say it is a fact which must be recognized that full employment is no longer possible. Who is your authority for that statement?—A. Well, I have read the statement in several places. Stuart Chase in his report for the Twentieth Century Fund is one of the authorities that comes to mind. This, of course, refers to the production of consumer goods because I indicated elsewhere in the brief you can put your surplus manpower to work in the development of public projects. But here we refer to the production of consumer goods.

Q. I will leave that. On page 86 of the brief, in proposal number 2, you say that section 59 of the Bank Act should be amended to provide that the chartered banks should be required to maintain 100 per cent in cash reserves for any deposit liability they incur in excess of their deposit liabilities as at the date this amendment comes into force. Does that indicate that you consider that the present banking set-up and the money that it earns from present services is sufficient for any future expansion?—A. For a long time to come, yes. There may be a time in the distant future when along with expansion provided under the 100 per cent cash reserves the returns to the banks, or the profits, if you wish, will be reduced considerably from what they are now. Then I feel that an adjustment will possibly have to be made.

Q. Would that apply to insurance houses, for example?—A. This only deals with the chartered banks.

Q. You place them on a different basis from other services in the country, is that correct?—A. The chartered banks are the only ones that are issuing money and credit.

Q. Would you agree that it is necessary to have a banking system?—A. Absolutely. I so state.

Q. They provide a service for the country itself?—A. A very essential service.

Q. In what way does their service differ from the services provided by railroads?—A. Railroads provide transportation. This is also an essential service. The service provided by the bank is to put into circulation the very economic lifeblood of the nation, the money supply of the country. That is the difference between the two.

Q. In the long run, is there any difference between the two services?—A. One provides transportation. A public utility in milk provides milk. Banks provide the medium of exchange, money.

Q. They are all services that are necessary to the country, are they not?—A. Oh, yes.

Q. And as such each should be paid for that service?—A. That is right.

Q. How are you going to determine when the present banking system is inadequate and needs expansion?—A. I am sorry, but I do not think I get the point.

Q. Say the population of the country doubles and the business being done in the country doubles, how will you determine at what point you can allow the banks to make more money available than at the present time to take care of that?—A. I think we are looking a long way into the future, but I think that the principle that I have enunciated is sound, that when the returns of the banks are not sufficient to provide them with an adequate and reasonable rate of return, then, of course, provision should be made for it.

Q. Is this the only organization providing services for the country that you would limit on that basis?—A. Oh, no, Mr. Weaver, I think you will find in the brief that I make reference to public utilities. We have several public utilities operating in the country at the present time which are operating under public utility principles, and we are suggesting that the banks should possibly operate under principles of the same nature.

Q. But you do not think that there is enough legislative scope, shall we say, to limit the profits of a bank, carrying on as we have been carrying on?—A. At the present time?

Q. Yes?—A. No, there is no limitation in the profits of the banks at the present time in their field of operations.

Q. They are limited, are they not, to making six per cent on loans?—A. That is right, that is their interest charge.

Q. If that is limited to five per cent, would that not be a limitation on them?—A. Yes, likewise if you bring it down to four.

Q. Does not parliament have the necessary scope to limit their profits?—A. By reducing their rate of returns, yes. We are suggesting this method of doing it instead of reducing the amount of returns, the rate of interest.

Q. You mentioned before that debt in the aggregate cannot be repaid. For every debt, is there not a corresponding credit?—A. That is right.

Q. And if those debits and credits were matched against each other at any particular time, would not that repay the debt?—A. If there were no interest, yes.

Q. Where does the interest enter into it?—A. Because the interest has to be paid along with the principal. When you borrow \$100, you have to pay the interest on the \$100, \$6 or whatever it is. When you have to pay back \$106, then you have another item coming in.

Q. If I went to the bank and had sufficient credit to borrow a sum of money, and I consumed it in consumer goods, I probably would not have the \$6. But supposing I put that to work and produced more farm products, providing there was no surplus, would I not gain the interest there?—A. Oh, yes, absolutely.

Q. And if I have available the thousand dollars in extra bushels of wheat that I have grown, would that not settle that debt?—A. Yes, absolutely. I recognize that.

Q. Well, why cannot the debt be repaid on that basis?—A. I am sorry that I have to go over the ground again, Mr. Chairman. I have indicated that individuals or communities, or states, or countries can pay their debt, but only at the expense of another community. To meet the interest obligation you have to get the money from someone else, who has also borrowed from the bank. In the aggregate, the chartered banks are not putting into circulation the amount of money to pay interest. The only way it can be paid is by borrowing again to pay the interest and going further into debt or by a policy of repudiation.

Q. I cannot follow you in that argument, Mr. Maynard, but in any event you mentioned this morning that the Alberta government was the only government that could pay off its debt.—A. I do not think I said that. Yes, it was in a position to do so.

Q. I think you said in your brief that a debt could not be paid at any one time without repudiation on somebody's part.—A. The accumulation of debt cannot be paid.

Q. Without some part of the debt being repudiated or going bankrupt? —A. That is right.

Q. Do you recall whether the government of Alberta ever failed to meet a money contract?—A. Yes, Mr. Weaver, I do. Would you like me to deal with it?

The CHAIRMAN: No.

Mr. WEAVER: Would there be any connection between these two facts, that the government of Alberta was the only government that has ever failed to meet a money contract and the fact that it is the only government to pay off its debt at the present time?

The WITNESS: There is no connection whatsoever, and if you want me to deal with the default of Alberta in 1936 I would be delighted to give you the whole story, but I do not want to impose on the committee.

The CHAIRMAN: We know the story and it is not discreditable. It was in the pattern of the times.

Mr. WEAVER: That is all, Mr. Chairman.

By Mr. Cameron:

Q. On page 58 of your brief, you have this to say:

The existence of our present debt problem is, I think, ample evidence that something is wrong with the banking system.

Now, Mr. Maynard, am I right in assuming that you have reference here to the public debt or rather the government bonds which are in the hands of the chartered banks? Is that the debt problem you are considering there?—A. All debt.

Q. Then would you consider that the holdings of the chartered banks of government bonds, which amount to some \$2,850 million odd out of a total of unmatured funded debt of \$14½ billion—would you consider that they were very important in this debt structure?—A. Every factor involving debt is important, because it is the accumulation of debt that is important, together with the principle involved in the creation of debt.

Q. Can you tell me how \$11 billion odd of government funded unmatured debt which is in other hands than the chartered banks got there?—A. They were undoubtedly obtained by the purchase of government bonds by insurance companies, trust companies, individuals and other corporations for investment purposes.

Q. How did they get the funds with which to buy these government bonds?—A. They were funds that they obtained in the operation of their own businesses.

Q. From their profits?—A. Profits, yes, it could be.

Q. Would you not agree, Mr. Maynard, that the debt problem which you held responsible for so much of our trouble is the result of a profit-making mechanism, not the result of the banking system at all?—A. No, Mr. Cameron. Not the result of profit-making economy, but the result of the method of operation of this profit-making economy.

Q. You mean the method by which they make profits?—A. No. The method by which the money is put into circulation in the first place.

Q. Will you explain the way in which money is put into circulation for this is the way in which our own banking corporations make profits.—A. That comes back to the question discussed several times about the accumulation of debt. Subject to what Mr. Tucker has said this afternoon in relation to

the \$2 billion that the Bank of Canada has injected into the money stream, all money by the chartered banks is issued as a debt. The amount of money issued as a debt bears interest. It is necessary to find ways and means of obtaining additional money to pay interest to the chartered banks, if the system has not within itself the money to pay interest on the money borrowed from the chartered banks then the amount to pay interest must be borrowed from the chartered banks or default and repudiation must follow. That is a principle with which you may not agree. But to me it is elementary. In some cases you will have people who will make profits under the operation of the system, you will have corporations making profits undoubtedly; but they are doing so in spite of the system, and as I indicated they can pay back the full amount of the debt with interest. But the economy as a whole cannot pay back the total amount loaned without borrowing for the purpose of paying the interest on it.

Q. Will you explain to me what difference there will be in the profits which I accumulate, say from manufacturing fountain pens, if I establish my factory from money which I had cached away in a mattress at home and money which I paid Mr. Atkinson for money I borrowed from him? In what way would the profits I make differ in those two instances?—A. In the one case you are using your accumulated capital. In that case you are not paying interest to anybody but in the other case if you borrow from Mr. Atkinson you have to pay interest on the money which you borrowed. The point I am getting at is even in the case of your accumulated capital you may not have to pay interest on it, but that money was put into the system at some time or other as a debt on which interest has to be paid by someone.

Q. But Mr. Maynard, when I have made my profit, and when I have paid off Mr. Atkinson, I then walk around and I interview Mr. Abbott and I buy a government bond from him. Now, how does the method by which Mr. Atkinson carries on his precarious business alter the way in which the people of Canada become indebted to me?—A. How does it alter it?

Q. Yes. You are saying it is the method by which the banks diffuse currency and credit into the economy which creates this debt which the people of Canada now owe to some unspecified people?—A. In both cases interest has to be paid. In one case it is paid to Mr. Atkinson; and in the other case it is paid to you.

Q. I am not in the banking system; I am in the fountain pen business.—A. I have been dealing in the aggregate amount of money in circulation in all cases. I have several times tried to point out that individuals can pay debts and accumulate profits, and can accumulate reserves and capital. There is no question about that, and they will continue to do so. But the total amount of money in circulation has been issued as an interest bearing debt, subject to the amount Mr. Tucker pointed out this afternoon was issued by the Bank of Canada.

Q. I still do not understand your explanation. But, you will admit, I think, in addition to the deficient quality of our banking system that there is a tendency in our economy for funds to accumulate in certain hands?—A. Yes.

Q. Will you tell us how the new sums of money which you are proposing the Bank of Canada should infuse into the economy—will you explain what will prevent them from following exactly the same paths through our economy and creating the same situation, except on a worse scale because we will have a lower level of inflation?—A. I have not suggested that it will not follow the same pattern. It will be likely, ultimately, that such sums of money will again be accumulated by such people. I was asked the question about millionaires. I realize there are millionaires and they will continue to exist even under the operation of these proposals.

Q. But you would not consider taxing back this money? You would wait until it had all gone to the hands of a few people and infuses more?—A. No. We do not suggest that the income tax be eliminated in so far as higher incomes are concerned. We do suggest that the time may come when we could reduce it on lower incomes, and I mentioned there were two ways in which accumulated wealth could be taxed, one by the operation of income tax, and the other by succession duties.

Q. You do consider taking it back again?—A. Yes.

Q. And you recognize that unless you did that it would develop into inflation.—A. It could develop into inflation.

Q. How could it not?—A. If it is not used. It could develop into inflation. That is why we suggested it should be taken back. We also suggest the proper means to take it back.

Q. I suggest this is a different proposition. What you are suggesting now is we should follow somewhat the same fiscal and monetary course followed by the government during the war, except that you are going to take back the bulk of the increasing purchasing power you are going to distribute?—A. No. I have indicated that there will be very little change in actual operation of the economy of this country with the implementation of these proposals. The taxation system will continue to operate, and the new money put into circulation will remain in circulation until it becomes redundant purchasing power. But, in so far as eliminating income tax now is concerned, there has never been any suggestion in the submission about that, except on low incomes possibly.

Q. I did not say that you had suggested that.—A. No, but I am just clarifying the question.

Q. One final question, Mr. Maynard. On page 59 of your brief you have this to say:

The building of the railroads and the settlement of the Canadian west are examples. The flow of immigration in more recent years is of the same nature. All of these created new wealth...but not one of them created new money.

Would you explain that please?—A. The development of wealth may result in the introduction in the money system of new money, but it does not create money. It creates assets. A manufacturing plant will create commodities and goods, but it does not create money. That is what is meant by the statement.

Q. That is the point. Are you suggesting that it is possible for us to expand our productive capacity for the production of real wealth without at the same time expanding our money supply?—A. No, and if you will follow on below that, or in the same chapter you will see that I indicate that with the development that should be taking place in Canada this year, with the construction of the gas pipe lines from Alberta both east and west and the construction of the St. Lawrence Seaway, there will be injected into the economy of the country a large supply of new purchasing power that will very likely result in increased business activity this year. That new money will be developing our assets and will result in purchasing power for the people of the country.

Q. A little while ago we were speaking about taxation and the problem occurs to me now: suppose we have a humble person, not like a member of parliament, but somebody who just gets about \$3,500 or \$4,000 a year. Suppose there are two of them and one is very thrifty, and saves quite a bit of it while the other believes in spending it as fast as it comes in. Are you going to penalize the one who saves and subsidize the one who spends?—A. No, not at all, not any more than is being done now.

Q. You told me that you are going to distribute more purchasing power to enable consumers to consume goods. I am the spendthrift one and I say: Look, I have spent all my money on beer and I would like to buy some more clothes or a new motor car and I want to be subsidized. How do you distinguish?—A. There will be absolutely no difference in the operations that will go on under the implementation of these proposals than you have now. Even today you have some people on old age pensions spending their cheques just as fast as they get them, while others are able to put a few cents aside every month to accumulate for later on.

Q. And where are they?—A. The ones who are getting the supplementary bonus from Alberta.

Q. You scored this time. Very good!

Mr. CAMERON (*Nanaimo*): I do not think we are going to see eye to eye.

The CHAIRMAN: Now, Mr. Henderson.

By Mr. Henderson:

Q. Mr. Maynard there are a few questions I should like to ask you. And the first one is this: I understand there was a bookkeeping entry on the books of the Bank of Canada and they made a debit. I do not follow how you get that credit back to the Bank of Canada, or do you?—A. Back to the Bank of Canada in the same way as the cheque system operates today. When the Canadian government issues a cheque for the payment of services, the recipient of the cheque will in due course deposit the cheque, or he may cash it; but usually he deposits it with a chartered bank. That cheque then becomes a claim against the Canadian government in favour of the chartered bank or the person who has an account with the chartered bank. In due course the account of the chartered bank is credited in the books of the Bank of Canada.

Q. Now I think this morning you mentioned the people on old age pensions and on pensions, who worked for the government. How do you get at it to determine those people who have no pensions or anything, and who are the people we are most concerned about, to determine how they get some of this new money?—A. We have in operation in the Province of Alberta a pension for people who are disabled.

Q. No. Take it out of the class. Take the fellow without a job today.—A. The people who are physically employable?

Q. The people who physically could be employed but are not. How are they to get some of this new money?—A. The implementation of these proposals will increase business activity throughout the country and those men will be able to get work.

Q. Do you agree that at the present time if such a situation does arise that too few people have too much money?—A. Oh, it could well be that we have some millionaires today, yes.

Q. Is that the basis of your thinking?—A. No.

Q. Do you think that is necessary?—A. That we should have millionaires?

Q. Yes.—A. Well, it may not be necessary that we should have millionaires but it is not objectionable that we should have millionaires.

Mr. Low: That we have some of them is evidence that some more could be made. I like that.

By Mr. Henderson:

Q. Do you propose to have any regulations or restrictions when this new money comes out?—A. No.

Q. How are you going to keep the millionaires from getting their hands on this new money?—A. They will. They will get a share of it.

Q. So we are back where we are now.—A. No. In the normal operations of the economy of the country this money is going to gravitate where our money is gravitating today. There is no question but that there will be more people employed, more people with purchasing power. Consequently there will be more production and more business activity in the country.

Q. Do you think that prices will rise?—A. No.

Q. If we are back where we are today, then at the conclusion of this term, after putting these billions of dollars of new money out, we would be in the same position we are in today?—A. No. I am sorry, no, Mr. Henderson, because the payments that are made, that we suggest be made to start the ball rolling in the implementation of these proposals, are made to the class of people that require assistance, old age pensioners and so on; they are the people who will be spending this money immediately; they are the people who will be creating the demand for more goods. As the demand is created for more goods, you will have more production and more people employed. I recognize that it may not be possible—referring to the man you mentioned at the outset, that is the unemployed man—it may not be possible to provide employment in the production of consumer goods for every able-bodied man in Canada. That is covered in the submission. We suggest through the implementation of the third proposal,—part C, in our third proposal,—that through a program of public works, the development of public works projects it will be possible to look after the individual who today is not required in the production of consumer goods.

Q. So it would not look after, let us say, the appliance manufacturer or anybody like that.—A. Yes, they are producing consumer goods, and the more appliances they sell, the more people they will have to put to work to produce consumer goods.

Q. That is fine.

The CHAIRMAN: Now, Mr. Macdonnell.

By Mr. Macdonnell:

Q. I have a few questions which I think are very short, in order to meet the specifications of the chairman. I should like to make one general remark, if I may, briefly. I must congratulate you on making in the most casual way statements which just make my hair stand on end. You seem to me to have suggested, as I say, in the most tranquil way a kind of supernatural wisdom in certain people whereby they are going to know, first of all, that there is too much money in the country and then they are going to be able to add to that just enough. No, I am wrong. You admit that they might make a mistake and that was the most astonishing thing of all because when they make a mistake they are going to know just exactly how to correct the mistake that has been made, and they are going to be able to go back and correct it. Forgive me if I say that these propositions to me—and I would rather imagine to other humdrum people like myself—seem just out of this world. We do not believe there are people like that and there is nothing in your experience or in the experience of the rest of us to indicate that there are. Now may I come to my questions?

The CHAIRMAN: Yes, please do.

The WITNESS: I would just like to make one comment on Mr. Macdonnell's statement. I do not think I have suggested in any way the degree of accuracy which you suggest I have intimated. I have suggested it is possible to do this work, but I do not think I have suggested to the dollar or the cent accuracy you seem to indicate I have suggested.

The CHAIRMAN: At this point, could we revert to questions?

Mr. MACDONNELL: I will be a good boy, Mr. Chairman. I was very surprised, Mr. Maynard, this afternoon to hear you say that you do a commercial banking business in the Alberta treasury branches. I thought you were doing the same kind of business they do in Ontario whereby they take savings. Have you a legal right to do banking business in view of section 91, subsection 15 of the British North America Act which says that the incorporation of banks shall be a function of the dominion?

The WITNESS: I do not think there is anything we are doing in our operation of the treasury branches which is a contravention of the British North America Act or the Bank Act and if it were I am sure we would have been stopped a long time ago.

By Mr. Macdonnell:

Q. Have you any opinion as to that?—A. Yes, we have the opinion of the legal officers of the Crown.

Q. Do you not think it is surprising that you are the only province which has ever done it?—A. Surprising? Possibly.

Q. However, I am not going to pursue that, if you feel you are within your rights.—A. Oh, definitely, Mr. Macdonnell.

Q. I come now to another point which was not brought up to any great extent until tonight, and that is the consumer dividends. I want to refer to the five points which you raise on page 97 as to the means of getting the additional money created into the hands of the purchasing public. To run over it quickly: the various welfare provisions, the gradual retirement of the public debt, the payment of capital expenditures, the subsidies; and then you go on to "the payment of consumer dividends to the extent necessary to enable the distribution and consumption of available goods and services". When we first heard of social credit which became well known I think about 1935, consumer dividends at that time were a great slogan. I think the figure that was mentioned at that time was \$25 a month, and that of course was in the days when \$25 was several times as big as it is now. Now, when you come to describe the way that the consumer dividends are to be provided again you use language which to me is—well, it takes one so far that quite frankly it seems to me there is nothing really to distinguish your final proposal from the almost unlimited use of the printing press. Let me read what you say when you refer to consumer dividends. I read from the top of page 113 to save time:

This principle is also well established in the payment of family allowances, old age pensions and other social security payments. Our recommendation here again is simply an extension of the principle already recognized.

I want to read a few lines further down on the same page:

We propose that money used to pay consumer dividends must be new money created by the Bank of Canada and used for the purpose mentioned in relation to production. Any contributory scheme, or any payments made out of funds taxed from the people only serve to aggravate an already chronic shortage.

Now frankly, that is the thing which seems to open wide the door. You have given us four or five alternatives and this seems a kind of "catch-all" so that if there is something more anyone would like done or which seems desirable, you have this provision. Who would determine the amount of consumer dividends and to whom would they go? Would there be a means test?—A. A means test?

Q. Would everyone get one?—A. For the payment of old age pensions but not for old age security payments. On the old age pensions from 65 to 70 they

have a means test. We have indicated in here the payment of the dividends is part of our program. As and when the deficiency of purchasing power reaches the point where after having put into circulation money to meet the deficiency and the other means provided, if there is still a deficiency then we believe as a matter of right the citizens should benefit by the receipt of a dividend.

Q. Let us look at it from the point of view of time. I will go over the whole five again: first of all, the welfare allowances, family allowance, old age pensions and security payments. They are taken care of. The only change there would be your proposal to increase the amount. Then you come to the gradual retirement of the public debt. There would be a time lag there, I suppose. It would not come overnight. Then you have the payment of capital expenditures. Now, that would be the creation of new enterprises which you would hope would create spending power. Then you come to subsidies and finally to consumer dividends. I notice you said tonight that this might be sometime in the future—but I find myself quite unable to imagine how anyone would determine when consumer dividends became necessary, how much would be necessary—you have capital expenditure which is gradually doing its work. At what point and how would you determine the consumer dividend and who would determine it?—A. In the first place the deficiency in purchasing power would still be determined by the officials of the Bank of Canada. The means of increasing the purchasing power would be determined by the government and it then becomes a question of practical application whether the purchasing power should be put into circulation by any of these different means. That is the process. I am saying this rapidly and I hope you do not think I am glib about it.

The CHAIRMAN: Oh no, you have already answered that question.

By Mr. Macdonnell:

Q. I want now to put a figure on the record. I think you said the banks did not make loans for consumers, and I want to draw to your attention page 793 of the proceedings of this committee where it says in the year 1953 the banks did make what are called personal loans up to a total of \$598 million.

I want now to come to a point that has been brought up before, and I now want my shot at it. You spoke again tonight about this. You said that the only way we can pay back interest as a whole is to borrow the money to do so or repudiate or have a depreciation of currency. I think that is what you said, and you outlined that tonight. Unfortunately, I find myself utterly unable to understand that proposition. Perhaps it is difficult for me because it seems to me from what mentality I can apply to it so obvious that a man who borrows may be in a position to pay back five or ten times if he is successful in his operation, but I want to begin by asking about the province of Alberta.

You told us you are in a position to pay off your debt, interest and all. I do not know how much of that represents taxation or royalties, but it does not matter much for our purposes. It came out of the wealth of Alberta. Your proposition, as I understand it, is that when a payment like that is made it must be made at the expense of someone else. To me that is utterly incomprehensible. Do you mean to say that the payment you describe which has come out of the wealth of Alberta has been at the expense of someone else? Will you answer that first?—A. Mr. Macdonnell, I do not know how I can put it any clearer than by referring you to the illustration on page 34 of the brief. I am by-passing the illustration of the poker game, because possibly you do not play poker.

Q. I am certainly not as good as I would like to be.

The CHAIRMAN: He plays pretty good political poker, I will say that for him.

The WITNESS: I will read it to you in order to save time:

Let us consider another example. For this illustration let us take a community of 10 people, each having \$100, or a total of \$1,000. This sum is deposited with a custodian for safekeeping—or if you wish a bank. This custodian, like the English goldsmiths of old, acts as book-keeper for the members of the community, records their transactions, transfers accounts from one member of the community to another as he may be directed. In due course, some of the members of the community approach the custodian for a loan. The loan is made. As a matter of fact with \$1,000 in the till the custodian makes loans totalling \$10,000. Remember that this is the current procedure followed by the chartered banks under the Bank Act.

What happens? The custodian charges the borrowers 6 per cent per annum on their loans. At the end of the year, the borrowers have to pay back—not \$10,000 but \$10,600!

How can they do it when there is only \$1,000 in the community? Well, they manage to repay the \$10,000 in loans. This represents only the principal sum advanced. As to the interest of \$600, this can only be paid to the custodian out of the funds—or cash—originally deposited with the custodian. Therefore, the community has title to \$600 less in money than it had at the beginning of the year. It now owns only \$400 from the original sum.

Now, Mr. Macdonnell, just carry on the cycle. To reduce it to simpler terms: if the 10 people borrow \$100 each and there is \$1,000 in circulation, and they have to pay it back, only with interest, how are they going to pay the interest as between themselves in the community? One can obtain some of the funds from another, and so on, but he can only get it at the expense of some other member of the community. The objection to that, of course, is that the community as a whole by producing will be able to sell their products to an adjoining community and keep part of the funds that the adjoining community has been able to obtain from production purposes from its banking system to pay back the \$1,000 that the first community obtained from the bank, along with six per cent interest. The suggestion I am making here is that the other community is doing the same thing, trying to export to you or sell to you some of their surplus production for the purpose of obtaining some of your \$1,000 to enable them to pay back their \$1,000 plus interest to the banks. Expand the community to the province, expand that to nations, and you have exactly the same principle involved. You cannot pay back to the banking institutions more than they put into circulation except by further borrowing to do so, which is accumulation of debt, or bankruptcy.

Mr. STEWART: Would Mr. Macdonnell allow me to interrupt?

Mr. MACDONNELL: Yes, if the chairman will. He is much more frightening than I am.

By Mr. Stewart:

Q. If an industrialist borrows \$1,000 to buy new machinery, and the result is that he produces 10 items instead of nine, he will have about a 10 per cent increase in production. Out of that increase in production, will he not pay the six per cent to the bank? Does the cost of interest not come out of the production rather than become capitalized?—A. Yes, he can do so, but when you take the community as a whole he can do it only by obtaining some of the money that the other members of the community have already obtained from the banking system. That is the point I am trying to get across and

that is the principal point of this section of the accumulation of debt. If the banking system gives \$1,000 to this industrialist, it gives it to another member of the community jointly. It is jointly—that is the point. They cannot pay back more than the banking system has put into circulation. Individually they can increase their production; they can work harder than some other member of the community; but individually they can pay back only the interest and make a profit only at the expense of some other member of the community.

Q. Only at the expense of their own profit. Under the additional production created by the new machinery. Otherwise you would have no profits?—A. That is right, but the total amount of circulation in the community is a debt and has to be paid back along with the interest. The total amount cannot be paid back with interest on the principle that the interest has not been put into circulation.

Q. Every debt is an asset, is it not?

The CHAIRMAN: You are back where you started.

By Mr. Macdonnell:

Q. Let us come back to this poker game. I am not very good at poker and I am slightly taken aback when I am given an illustration from a game that I do not know very well. I would like to ask the witness a simple question, whether or not he admits that Alberta out of its own resources has been able to pay its debt and interest?—A. Yes.

Q. All right. Now, will you explain to me how that is at the cost of anybody else? You say that it is at the cost of somebody else. I may have a naive approach to these matters, but I believe that common sense has a place. To me, Alberta, which represents an aggregate of people dwelling in that province and owning its assets, has out of these assets produced enough to pay its own debt, and not at the cost of anybody else. It is difficult for me to believe anything but that.—A. Mr. Macdonnell, I cannot explain it any clearer than I have done already. The total amount of money that has been put into circulation in Canada by the banking system...

Q. Cannot we stick to Alberta?—A. I said that we paid our debt.

The CHAIRMAN: He said the answer was, "Yes". How much better can you have it.

Mr. MACDONNELL: If he is content to leave it there, I am content.

The CHAIRMAN: Then come to the next question.

Mr. MACDONNELL: One last question. You were explaining this afternoon how the Dominion Bureau of Statistics was to determine the amount of goods that were required and, as I understand it, you went outside the needs of Canada and you considered that the government of Canada should concern itself with the export of wheat and should be ready to pay for the wheat exported which could not be paid for by those who get it. You suggested wheat. How far is that limited? Would that be limited to wheat, or might it affect base metals? Might it affect lumber? How far do you go, and is there any limit to the extent to which the government of Canada should indulge in transactions of that kind which, as I see it, are virtually either giving things away as a nation or lending money to foreigners to purchase goods from us which at the present time they cannot pay for. I am talking not about the moral side of it but the financial side.

The WITNESS: Yes, Mr. Macdonnell, there is a very practical limit. The limit is the amount of purchasing power that the Canadian government can put into circulation in payment of the wheat it obtains from the farmers of Canada. That is the financial limit. If the amount of purchasing power that

the Canadian government is going to have to put into circulation is going to result in surplus purchasing power in relation to what production we have, we are going too far. That would cause inflation. Let me remind you of this fact. During the war we gave a billion dollars to Great Britain. It might also be a good thing to remind the committee that during the war we exported 40 per cent of our production in the form of arms and ammunition, which we left in Germany. Is it not better to export replaceable assets that will enable us to establish peace in the world instead of exporting irreplaceable assets that will provide destruction?

The CHAIRMAN: Gentlemen.

By Mr. Macdonnell:

Q. I think you are introducing a different argument. I was just asking you what is the limit that you are prepared to go in paying for the export of base metals, of lumber, etc., and I suppose there is nothing in principle that you should not do. Where do you stop?—A. I would stop at the export of the commodities that are surplus to the requirements of Canada. Wheat I take as one example.

Q. Will you have to limit the production then?—A. No, not necessarily. The financial limit, as I suggested, is the amount of purchasing power that can be issued by the Canadian government for the payment of that wheat to the Canadian farmer without putting into circulation a surplus amount of money.

Q. That is in addition, of course, to the requirements of the Canadian people?—A. Yes.

Q. And could or should that apply to lumber?—A. At the outset I would not even consider it.

Q. Why not?—A. Because I do not know enough about the lumbering industry.

Q. Should it apply to base metals?—A. I do not know. I have been discussing a question of principle.

Q. Well, in principle, it could apply to an export of any kind?—A. In principle it could; in practice, very likely not. It may not be necessary.

By Mr. Fleming:

Q. Mr. Chairman, Mr. Maynard this morning read several extracts from this book entitled "The Chart of Plenty" by Loeb, published in 1935. At page 78, he read these two sentences:

"At present production is curtailed to meet a grossly inadequate buying power."

This referred to conditions in the United States in 1935. It proceeds:

An efficiently managed society"—and I stress those words, "An efficiently managed society would consciously and scientifically adjust its economic mechanism so that buying power would always command full desirable production.

Do you believe in the managed society or managed mechanism?—A. No, Mr. Fleming, I do not, and I do not think it is necessary to manage the society of the country. The implementation of these proposals operating under the mechanism of the country is all that is required. The machinery is already there.

Q. You do not go along with the statement you read this morning?—A. I go along with the statement that proposes curtailment to meet a grossly inadequate buying power.

Q. You do go along with the statement "an efficiently managed society would consciously and scientifically adjust its economic mechanisms", etc?—A. It would not be necessary to manage the system in an implementation of controls.

Q. You say that it would not be necessary, but I am asking you if you hold the views that an efficiently managed society would consciously and scientifically adjust its economic mechanisms so that buying power would always command full desirable production?—A. It should.

Q. Do you agree with the statement.—A. I agree with the statement in so far as operation is concerned, but as to the method of operation, whether by controls or so on—I do not agree with controls.

Q. I was left with the impression this morning, you having quoted the statement, that you were quoting it with approval?—A. It was for the purpose of answering the inference that some people had made that it would be impossible to maintain production capacities at the level of the purchasing power in the country.

Q. I wondered if you wanted to rest your case on the statement of a man, or the advocacy of a man, who is apparently a believer in the managed economy.—A. I think you will find when people recommend various proposals they may all have their own ways or methods of putting the proposals into operation. We have explained the proposals we recommend and the means of implementing these proposals. We have stated we do not believe regimentation is required or desirable, or in controls for the implementation of these proposals.

By Mr. Low:

Q. I am going to be conscious of the fact that you have had a hard day, and I want to be as brief as I can and save you as much as I can. Dealing just for one moment with the questions asked by Mr. Fleming, would you say that the economy at the present time, Mr. Maynard, is not managed?—A. Oh, it is undoubtedly managed to some extent.

Q. Would you say that the money part of our economy was being managed at the present time?—A. It is managed under the Bank of Canada Act.

Q. Would it not be possible that Dr. Harold Loeb the chairman of the committee you mentioned this morning and the author of this "Chart of Plenty", might not be referring to managed finances of the country when he mentions managed society?—A. It could be possible.

Q. Mr. Maynard, we were speaking this morning about the creation of interest free money and I think it was when Mr. Fleming was questioning you he lead you into the statement that the creation of interest free money, or fountain pen money was a simple thing; that it was created out of nothing. Would it not be more correct to say that any interest free money that is issued would be based on the wealth of the country, and, therefore, would be created out of the real credit of Canada?—A. Mr. Low, the mechanism which we think is what Mr. Fleming was referring to this morning is a simple procedure. The amount of money issued must be based on the production aspects of the country and the physical facilities and requirements of the country. That is why we have been talking about the assets, the physical facilities, and industrial requirements of the country.

Q. May I refer to something Mr. Cameron dealt with this morning. He referred to the wartime economy and asked you about the lessons we learned from the experience then. Do you say that the lessons we learned from the war experience were three-fold; (a) that the government can get all the money it requires for any purpose that may arise—I am speaking of the federal government; and, (b) that Canada enjoyed prosperity while at the same time she was giving away the top 40 per cent of Canadian production for war purposes—for destructive purposes; and (c) that if prosperity is to continue in Canada in the postwar years there must be stabilization of the economy by various methods of increasing consumption, such as unemployment insurance, family allowances, and that sort of thing?—A. I do not think that there can be any question about those three lessons.

Q. Referring to what Mr. Cameron said about the profit system, he wanted you to admit that it was the profit system that was responsible for the evils of the system. Would you agree that the trouble arises with the way in which expansion of the plant and capital equipment have been financed, that is, out of savings and re-investment. May I give you this example: If a certain plant put out a million dollars worth of goods in a year, and for the sake of argument let us say they are distributed, and there was distributed during that year \$1 million of purchasing power. Now, it is assumed that about 10 per cent according to running figures of that \$1 million would be saved leaving only \$900,000 to purchase the \$1 million worth of production. But when that \$100,000 saved is invested for expansion of plant, it does become consumer purchasing power, but it now becomes a claim on the new cycle of production put out by the expanded plant, leaving \$100,000 of deficiency purchasing power in the first cycle of production to be provided. Would you agree with that.—A. That is what I was trying to explain tonight.

Q. When you say that the aggregate indebtedness of the Canadian people cannot be paid, I would like to find out what you mean. Do you mean if all the money in existence in Canada at any given time is applied against the total indebtedness of the people of the country, that it would be insufficient at that time to pay the debt?—A. That is right.

Q. Now, when Mr. Tucker was questioning you today he did establish, I thought, that the principle of interest-free money had been recognized by the Bank of Canada and I think you agreed with him to a certain extent. The figures you left undetermined. But in the course of his statement that he made at that time, Mr. Tucker indicated that over a period of 15 years the Bank of Canada had injected into the economy of the country something like \$2 billion 200 million worth of interest-free—that is, what is in effect interest-free money. And then I think he went on and said—and you can check me, Mr. Tucker, if I am not correct—that \$2 billion \$200 million was enough to take care of the interest that had to be extracted out of the people of Canada to take care of interest payments to the banks. Very well.

Now, I should like to refer you for a moment to pages 701, 702 and 703 of the evidence taken before this committee. Have you seen the statement? No. Pardon me, not on that page, I am sorry. It is the statement in No. 11, I believe, on page 795 of the evidence. I refer you, Mr. Maynard, to the top item, "Current operating earnings" and you will notice that those earnings are given for the years 1930 to 1944; 1931 to 1945, and so on as averages. And in the last column the average per year of those earnings in the period 1939 to 1953; and you will notice a total of earnings of \$216,900,000 on the average per year; and if you multiply that by 15?—A. That is on page 796.

Mr. Low: Yes, I am sorry. And if you multiply that figure of \$216,900,000 by 15.

Mr. TUCKER: That is earnings.

Mr. Low: It all has to come out of the people by way of taxation.

Mr. TUCKER: I was referring to interest paid on government borrowing, and that figure you give is earnings.

Mr. Low: Well, even if you limit it to that, let us see what this figure would amount to. If you multiply that different figure by 15, then what do you get?

The WITNESS: \$3 billion and one.

By Mr. Low:

Q. All right, \$3 billion and one.—A. Just under \$3 billion and one.

Q. It would be slightly over \$3 billion.—A. No, under \$3 billion two.

Q. Well then, that amount of money would have to be extracted from the purchasing power of the people through taxation or through the direct payment

of interest or something to the banking system, would it not?—A. That is right. On that point I worked out some figures here on Mr. Tucker's point this evening. Mr. Tucker, I think, was out earlier this evening when I indicated that the Bank of Canada had injected into the money system of the country \$2 billion. I am deducting from that, Mr. Tucker, the \$200 million that the Bank of Canada had originally raised to purchase the gold supply of the country and I think you will accept that as being reasonable.

Mr. TUCKER: I was dealing with the increase.

The WITNESS: The increase is \$2 billion.

The CHAIRMAN: \$2 billion \$200 million.

The WITNESS: Now, I checked it up in the Canada Year Book, and you may do the same. I found that the total deposit liabilities for the past 15 years were some \$104 billion. You divide that by 15 and you will find that the average is \$6.9 billion dollars roughly; and if you multiply that by $4\frac{1}{2}$ per cent as the average rate of interest, you arrive at a figure, roughly, of \$4 million.

Mr. TUCKER: I was taking actual loans by the bank. That is what I was taking, and paying an interest of 5 per cent while you are taking deposit liabilities.

The CHAIRMAN: He is Mr. Low's witness.

By Mr. Low:

Q. Would you say that the amount of interest-free money injected into the system by the Bank of Canada in 15 years would be sufficient to take care of the interest?—A. It is still somewhere in the neighbourhood of \$2 million less than the interest paid in the same period of time, Mr. Low.

Mr. TUCKER: Could this money not be used over and over again when it is put into the economic system?

The WITNESS: That is velocity of circulation.

Mr. TUCKER: And when the total paid in interest almost equals the total put into the system in a period of 18 years, that certainly shoots Mr. Low's suggestion all to pieces, does it not?

The CHAIRMAN: Gentlemen, we will read the record and reach our own conclusions.

By Mr. Low:

Q. Mr. Maynard, under the proposals that you set out in your brief, when you have established at any time that there is a deficiency of purchasing power, would you say that the situation would have to be met or corrected by only one means, the creation of new interest-free purchasing power?—A. When which?

Q. When it has been established that there is a deficiency of purchasing power, would you not say that the situation might be corrected by a combination of things, budgetary, fiscal and monetary?—A. Oh, undoubtedly, Mr. Low, that has been done in the past and will undoubtedly be done in the future.

Q. You would not say there would be any radical departure from present arrangements?—A. The same practice would have to be carried on in the future in the departments of government and the Bank of Canada has been going on in the past.

Q. Would you say that other circumstances such as government spending on public works and taxation reduction might be used rather than an increase in purchasing power?—A. That is one of our proposals.

Q. In giving evidence before the committee on March 23 as reported on page 755 of the evidence, Mr. Towers testified as follows and I will quickly run over it because I want to ask some questions on it.

By Mr. Low:

Q. Mr. Towers, I suppose you would agree that most of the nation's purchasing power over any period would be furnished automatically through the production process?—A. Through the production and exchange of goods, yes.

Q. I suppose I would be quite correct in saying that this whole statement we have heard so much in past years, that "production creates purchasing power" would be pretty nearly correct?—A. Yes.

Q. I imagine, Mr. Towers, that you would not believe that this process would automatically and mysteriously furnish exactly the right amount of purchasing power to all sections of Canada at all times, even if we were living in that heaven that classicists have conjured up, one without a government?

Then there was an interjection which was good, and then the answer to the question:

The Witness: The search for Utopia has not ended.

What do you think Mr. Towers was really saying there?

The CHAIRMAN: Mr. Low, there are the words, and as Mr. Maynard said, "he said what he said".

Mr. MACDONNELL: And he said more later, too.

Mr. Low: Certainly he did.

Mr. FLEMING: Mr. Chairman I think we have to be realistic. It does not lie within the province of Mr. Maynard or any member of the committee to say what Mr. Towers intended to say by his remarks. He should have asked Mr. Towers what he meant when he was here.

Mr. Low: I just want to put it in different words, and you are here to check me. Some of the rest of you did it before and pretty well too. What he really did say was that the great bulk of the nation's purchasing power is determined by many thousands of producers and would-be producers who get together with their bankers and use their best judgments about what the nation's consumption and the consumers outside of Canada are likely to buy if they produce it; and as a result of their judgment loans are made and the production effort is made possible. Consequently, under present practices, the great bulk of the nation's purchasing power is determined by the masses of people themselves, producers, consumers, bankers, professional men and so on. Under the proposals made in your brief, Mr. Maynard, what would be the difference?

The WITNESS: Well, Mr. Low, if you use the interpretation—

Mr. FLEMING: Mr. Chairman, I do not think you can allow a question to be put in that form where a member of the committee takes a statement of a witness who has already been before the committee and completely recasts it to suit his own purpose and then invites a comment upon a recast version of something that was said.

The CHAIRMAN: I think Mr. Fleming has a point there, Mr. Low. The words speak for themselves. I do not think you should interpret them. You had an opportunity to examine Mr. Towers.

Mr. Low: All right, I will assume that responsibility for those words myself and I say that is what Mr. Towers said. I will put the question to you this way: I have summed up the situation as I think it is today; that is, the method by which the amount of purchasing power that is to be put into circulation is determined,—the great bulk of it—now then, in what way would your proposals differ?

Mr. MACDONNELL: Why, there is a whole world of difference!

Mr. Low: Let the witness answer.

The WITNESS: There is no difference between the implementation of our proposals and the suggestion now made by Mr. Low. In the final analysis that is what would happen. Our proposals provide an additional means of supplementing the purchasing power that would be put into circulation in the manner Mr. Low suggests and to that extent only is it complementary, but in no way different.

Mr. Low: Now, Mr. Maynard, in the past occasionally the Bank of Canada and the government have pooled their judgment and their knowledge of the circumstances of the time and have decided that it was necessary to add to the money supply of the country by a process which has resulted in increasing the cash reserves of the chartered banks which they in turn were expected to use for the purpose of credit expansion. For instance, in the fall of 1939 Mr. Ilsley stated himself that he arranged with the chartered banks for \$200 million to start the war.

The CHAIRMAN: Why don't you ask the question? You have been giving information—ask the question.

Mr. MACDONNELL: You have given him the answer.

The CHAIRMAN: Yes.

Mr. Low: All right, I will ask him if he knows. Do you know that was the case?

The WITNESS: It is on the record.

Mr. Low: It is on the record, of course.

Q. Would there be any serious or substantial difference between the method you propose and the methods that have been used in the last 15 or 20 years?—

A. There is this difference, Mr. Low—

The CHAIRMAN: Mr. Maynard you are disappointing him by saying there is a difference. Please continue.

By Mr. Low:

Q. I want to find out?—A. We are advocating in proposal number 2 that the status quo of the banks should be crystallized as it is now and that from there on if bank credit is required for additional production that it should obtain the cash reserves to expand bank credit on a 100 per cent basis from the bank of Canada.

Q. Mr. Maynard, under your proposals would there be any change in the manner in which the volume of the cash reserves of the chartered banks would be determined—any difference from the present?—A. You mean the existing cash reserves or the cash reserves?

Q. Any cash reserves?—A. It would still be by the Bank of Canada through the cash reserves of the Bank of Canada.

Q. And determined by the best judgment of many able men that we have and not by any small group of men in the Dominion Bureau of Statistics?—A. I call attention to that—

Mr. MACDONNELL: Not the 100 per cent feature.

Mr. Low: You mention the third way that money and circulation might be increased if the circumstances warrant it. That was, if I remember correctly, by the action of the Bank of Canada in providing the government with interest-free money, which the government would pay directly into the hands of the consumer. How would the amount of that be determined?

The WITNESS: I have dealt with that several times.

Mr. MACDONNELL: I could answer that.

Mr. Low: If it is on the record.

The CHAIRMAN: It is on the record.

Mr. Low: Is that where your survey by the Dominion Bureau of Statistics might come in?

The CHAIRMAN: He said he answered it, it is on the record.

The WITNESS: That has been covered, Mr. Low.

Mr. MACDONNELL: I don't think he should water it down. I think that he has done a good job of explaining it.

Mr. Low: I am not trying to get him to water it down. I was just wanting to get your hair from its standing-up position.

Mr. MACDONNELL: You are doing that.

Mr. Low: The impression has been created in various ways that your proposals advocate putting into circulation huge amounts of new money; is that correct?

The WITNESS: Well, Mr. Low, it could be huge amounts of money, but certainly there is a limiting factor that I have established and stated time and time again, namely, the amount of purchasing power to be put into circulation under these proposals and any other proposal suggested under proposal No. 3 would be limited to meeting the deficiency in purchasing power that is now—

Mr. MACDONNELL: So there is no longer need for any of us to want for anything?

The WITNESS: To meet the deficiency that now exists.

The CHAIRMAN: Gentlemen, this concludes the evidence by Mr. Maynard. I wish to say on behalf of the committee, Mr. Maynard, that you came to us with a very fine reputation which, I feel, you have enhanced by your attitude and your demeanor before the committee. We were very much impressed with your evidence, if we do not all agree with you, you will understand.

Mr. MACDONNELL: We should all be very grateful to Mr. Maynard for his good temper and for putting up with people who do not agree with him, Mr. Chairman.

The WITNESS: Could I express my own personal appreciation to all members of the committee for their courtesy and consideration. I do not mind admitting that it was a little rough at times, but I trust that I have been able to give the members of the committee something to think about, and yourself, Mr. Chairman, I wish to thank you for your utmost consideration and kindness.

The CHAIRMAN: Thank you very much.

Canada, Banking and Commerce,
Standing Committee on, 1954

HOUSE OF COMMONS

First Session—Twenty-second Parliament, 1954

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(STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: DAVID A. CROLL, *Esq.*

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 25

Decennial Revision of the Bank Act

TUESDAY, MAY 4, 1954



WITNESS:

The Honourable Douglas Abbott, Q.C., Minister of Finance

NOTICE OF MOTION

TUESDAY, April 6, 1954.

Mr. Macnaughton—On the Clause by Clause consideration of Bill No. 338, An Act respecting Banks and Banking—That Clause 21 of Bill 338 be amended by adding thereto the following new subclause (4):

(4) A person is not eligible to be elected or appointed a director after the first day of July, 1959, if he has reached the age of seventy-five years.



MINUTES OF PROCEEDINGS

TUESDAY, May 4, 1954

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. Mr. David A. Croll, Chairman, presided.

Members presents Messrs. Balcom, Benidickson, Boucher (*Restigouche-Madawaska*), Cameron (*Nanaimo*), Cannon, Crestohl, Dumas, Fleming, Fraser (*Peterborough*), Fraser (*St. John's East*), Hanna, Hellyer, Henderson, Hoffman, Hunter, Low, Macdonnell, Macnaughton, McMillan, Michener, Monteith, Noseworthy, Philpott, Stewart (*Winnipeg North*), Tucker, Weaver and Wood.

In attendance: The Honourable D. C. Abbott, Q.C., Minister of Finance; Mr. K. W. Taylor, Deputy Minister of Finance; Mr. C. F. Elderkin, Inspector General of Banks; Mr. K. R. MacGregor, Superintendent of Insurance; Mr. G. K. Bouey, Assistant Chief, Research Department, Bank of Canada; Mr. T. H. Atkinson, President of the Canadian Bankers' Association and Vice-President and General Manager of the Royal Bank of Canada; Mr. Arthur C. Jensen, General Manager of the Bank of Montreal; Mr. A. C. Ashforth, Vice-President and General Manager of The Dominion Bank; Mr. W. T. G. Hackett, Assistant General Manager of The Bank of Montreal; Mr. J. D. Gibson, Assistant General Manager of The Bank of Nova Scotia; Mr. F. A. Dulude, Assistant General Manager of the Banque Canadienne Nationale.

The Committee resumed consideration of Bill No. 297, An Act to amend the Bank of Canada Act, and Bill No. 338, An Act respecting Banks and Banking.

The Chairman laid on the table briefs received from the following associations:

Canadian Feed Manufacturers Association, (*Appendix "A"*)

The Ontario Retail Feed Dealers Association, (*Appendix "B"*)

The Poultry Industry Committee of Ontario, (*Appendix "C"*)

Ordered,—That the said briefs be printed as appendices to this day's evidence.

The Chairman also placed on record a resolution adopted unanimously by the Ontario Seed Corn Growers Marketing Board with respect to Bill No. 338. (*See evidence*).

Mr. Abbott was called, made a statement on contingency reserves and was questioned thereon.

During the examination of Mr. Abbott, Mr. Elderkin answered questions specifically referred to him.

At 12.30 o'clock p.m., the examination of Mr. Abbott still continuing, the Committee adjourned to meet again at 3.30 o'clock p.m. this day.

AFTERNOON SITTING

The Committee resumed at 4.15 o'clock p.m. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Balcom, Cameron (*Nanaimo*), Cannon, Crestohl, Dumas, Fraser (*Peterborough*), Fraser (*St. John's East*), Hanna, Hellyer, Henderson, Huffman, Hunter, Johnston (*Bow River*), Low, Macdonnell, Macnaughton, Matheson, McMillan, Michener, Monteith, Noseworthy, Philpott, Stewart (*Winnipeg North*), Tucker, Weaver and Wood.

In attendance: Same as at the morning sitting.

The examination of Mr. Abbott was continued.

At 5.35 o'clock p.m., the examination of Mr. Abbott having been concluded, the Committee adjourned to meet again at 11.00 o'clock a.m., Thursday, May 6.

R. J. GRATRIX,
Clerk of the Committee.

EVIDENCE

May 4, 1954.

11.00 a.m.

The CHAIRMAN: Gentlemen, I see a quorum. I wish to place on the record today briefs received from the Canadian Feed Manufacturers' Association, the Ontario Retail Feed Dealers' Association, the Poultry Industry Committee of Ontario and also a copy of a motion passed unanimously by the Ontario Seed Corn Growers' Marketing Board on April 20th of this year.

It was moved by Wm. Wallace and seconded by Ross Townsend that the Ontario Seed Corn Growers' Marketing Board write the Minister of Finance regarding the amendments to the Bank Act and support the action of the Federation of Agriculture in this regard so that farm products delivered to any processor be regarded as a preferred claim in the amount of value at the time of delivery. Further—Chairman G. C. Nichols be authorized to take whatever action necessary to assist if necessary in presenting this matter.

Motion carried.

We are privileged to have as our witness today the Honourable the Minister of Finance. I believe he has a short statement to make.

Hon. Mr. ABBOTT: Yes, Mr. Chairman. The only prepared statement I intend to make is a short one on contingency reserves. I do want to say, before beginning my remarks, how appreciative I am of the assiduous and orderly way in which the committee has been dealing with the matters before it. It would not be for me to attempt to forecast when the session would be over, but I suppose most of us hope that we may be able to conclude sometime around the middle of June. If that is the case, I would hope that it may be possible to complete consideration of the Act some time around the end of this month because it has to go back into the House, as you know, and then be dealt with in the other place. I realize how difficult it is to have meetings two days a week, twice a day, particularly with other committees sitting, but I just throw that out as a target for us in approaching a consideration of the detail of the Act.

Mr. STEWART (Winnipeg North): Have you any contingency reserves against that statement?

Hon. Mr. ABBOTT: Unfortunately no, Mr. Stewart!

Mr. MACDONNELL: You surely haven't got three sittings a day up your sleeve?

Hon. Mr. ABBOTT: No, but we might have evening sittings in the Committee on Banking and Commerce as well as morning sittings in the House.

Mr. CAMERON (Nanaimo): We have already had one.

Hon. Mr. ABBOTT: As I said, the only formal statement I have prepared is a brief reference to the contingency reserves of the banks.

The nature of the contingency reserves and the manner of their creation have, I understand, been fully explained by the inspector general of banks in his evidence before the committee, and as the committee is aware, these reserves are maintained by the banks for the contingencies of losses and pro-

vision for losses on securities, loans and other investments and provision for depreciation in the market value of securities held, the amount of which cannot be definitely established before the event but which do inevitably occur from time to time.

There are three factors which arise in any consideration of contingency reserves: (1) need for the reserves, (2) disclosure of amounts, and (3) effect on taxation.

All of these points were discussed before the 1944 committee by my predecessor, Mr. Ilsley, and those of us who were here at that time will recall his very comprehensive statement which appears at pages 373 to 382 of those proceedings. He covered the subject fully and I feel I can add very little to the statement he made at that time. However, I shall deal briefly with the subject under the three headings I have mentioned.

Need for Reserves. I think it is obvious that adequate inner reserves have two very beneficial results, the protection of bank depositors and the effect on the credit viewpoint of bank management. These, I believe, are generally accepted facts. They have been discussed and explained before both the 1944 committee and in earlier evidence, I understand, before this committee.

With respect to the reserves necessary to provide for valuation of securities at market prices as required by the Bank Act, it has been suggested that some banks have sufficient in published rest or reserve fund to meet these requirements and that the need for contingency reserves for this purpose is largely psychological. Even if the premise were correct, it would mean that such fluctuations in the market value of the security portfolios would be reflected in the published reserve accounts and for reasons which I shall mention later, that could have a very undesirable effect on both bank management and the public.

Disclosure of Amounts. On the second point on the disclosure I refer to public disclosure in the published statements of the banks or in some other manner from government sources. For the purposes of income tax assessments, to which I shall refer in a moment, and for the examinations conducted by the inspector general of banks, there is, of course, full disclosure of all particulars relating to the reserves.

My viewpoint on this matter is the same as that of my predecessors in office. It has never been the policy of any Canadian government since Confederation that such disclosure should be required. This is not a policy that is unique in Canada. It has been followed in other countries such as the United States and the United Kingdom, and there are in my view very good reasons for it.

Publication of reserves means, to a great extent, publication of losses and provisions for losses. Information of that kind can be very misleading and could give rise to incorrect deductions and unfortunate consequences. If I were convinced that any benefit to the public would accrue from the disclosure of the amount of loss provisions for any particular year, or the amount of reserves at any particular time, I would be quite prepared to weigh that benefit against the well-recognized reasons for non-disclosure, but I believe that disclosure of this information would produce no good result, would influence adversely the credit viewpoint of bank management and might be very harmful to the banking system and, therefore, to the Canadian people.

Effect on Taxation. And finally, notwithstanding what has been said on many occasions in the past, there still seems to be a belief on the part of some people that the banks are the only taxpayers who may charge against taxable income, reserves for losses on bad debts and other assets. A study of the Income Tax Act will, of course, show that that is not so. Similar reserves are common to many other business taxpayers in Canada. The permitted amounts and nature of the reserves vary with the types of business.

Let me point out that, in common with other taxpayers, the creation by the banks of a reserve of this kind is not a means to escape taxation. At the most it is a deferment, for if it so happens that the permitted amount exceeds the ultimate requirements, the excess will eventually be returned to income and become subject to tax.

The Bank Act requires the Minister of Finance to establish the maximum amount of reserves that a bank may create out of taxable earnings and the Income Tax Act states that the amount so determined by the minister shall be that allowed for income tax purposes. In practice, after receiving the annual report of the inspector general of banks on the inner reserves of a bank, I inform the Minister of National Revenue of the amount transferred from profits to reserves during the past year and if, in my opinion, any part of the amount transferred was excessive. The Income Tax Department makes the same type of examination with respect to the banks as it does with respect to other taxpayers and has access to all of the bank records, including those relating to the reserves, but pursuant to the Act, accepts my decision as to the appropriate amount of reserves which a bank may have.

The rules which I have prescribed for the determination of the inner reserves of a bank appear, I understand, as Exhibit 31 of the proceedings of this committee. To some they may appear to be generous and if one looks only at the loss experience of recent years, support could be found for that view. However, I wish to emphasize the very important point that, to fulfil their proper function, these reserves should be sufficient to meet the impact of peak losses which may occur in any year or in consecutive years and, for that purpose, must be very much larger than an average loss experience figure would indicate to be necessary.

The formula for contingency reserves is based on a very careful study of the loss experience of the banks during the years subsequent to 1927 and the object is to permit the banks to accumulate during good years sufficient reserves to ensure their safety and stability if conditions become less favourable. The amount of reserves which is appropriate must, of course, be a matter of opinion, an opinion for which I must be responsible while I occupy my present position, but I freely admit that in forming that opinion, I would prefer to err on the side of "too much" rather than "too little".

As the minister responsible for finding ways and means to obtain the necessary revenue requirements of this country, I would be the last to recommend any taxation privilege or exemption to a person or group which, in my opinion, was not deserved, and as the minister responsible for the administration of our banking system, I have always been highly conscious of the necessity of keeping this very important sector of our economy in a strong and healthy condition that will continue to justify the confidence of the Canadian public and the high regard in which our banks are held by residents and financial authorities of other countries.

These were, of course, basic considerations in evolving the reserve formula presently in use, which I believe is equitable to all concerned and which I hope will enable the banks to provide reserves adequate to meet any unfortunate emergencies which may occur in the future and thus safeguard the funds of their millions of depositors.

The CHAIRMAN: We will begin this morning with Mr. Low.

Mr. Low: Mr. Abbott has answered more or less fully some of the questions which I had in mind regarding the inner reserves but there are some, particularly concerning the history of the reserves, which I would like to ask him. I examined exhibit No. 31 which was filed by Mr. Elderkin on April 8 at page 1083 of the evidence of this committee. I take it that what is usually called the "hidden reserve" is the general loss reserve?

Hon. Mr. ABBOTT: That is correct.

Mr. Low: When was this particular reserve first set up, Mr. Abbott?

Hon. Mr. ABBOTT: Well, I would not want to be sure but I think I am correct in saying—and the inspector general will correct me if I am wrong—that the so-called inner reserves or general loss reserves have been provided ever since the Canadian banks were organized. The present formula was evolved after the revision of the Bank Act in 1944. That is correct, is it not, Mr. Elderkin?

Mr. ELDERKIN: Yes.

Hon. Mr. ABBOTT: And apparently as a result of discussions which took place in the committee at that time—and you may remember, Mr. Low,—the section was put in the Bank Act providing for the present basis for review with the Minister of National Revenue whether the reserves were adequate or not.

Mr. Low: Mr. Abbott, who originated the idea of the general loss reserves? Was it the banks themselves or would it be the government who would perhaps write it into the Bank Act and make it a requirement? Do you remember just how that came about?

Hon. Mr. ABBOTT: No, I do not. I am afraid I do not know the early history of inner reserves, but my understanding is they have existed ever since commercial banking has been carried on in its present form.

Mr. Low: And you say that the idea evolved more or less as a consequence of discussions which were carried on between the banks and the Minister of Finance who is responsible for it?

Hon. Mr. ABBOTT: I would say it would have evolved by reason of the very nature of banking itself. Banking is a business based on credit and public confidence and I think the conception of a reserve which could be used—or which is used—to charge losses against from time to time without indicating to the public the size of losses in a particular period is a method which has been followed by bankers for a very long time for the very reason, as Mr. Ilsley explained in his statement to which I referred a few minutes ago, that the public would find it difficult to understand the reason for a sudden sharp loss in a particular period and it might tend to impair confidence in an institution which was fundamentally sound.

Mr. Low: I notice in your statement, Mr. Abbott, you give us the three factors which eventually influence the decision of the banks and the government to set up a formula which is outlined in exhibit 31. But may I say that the general public have the impression—I find this as I talk to them—that the purpose for the general loss reserves is to bolster the dividend paying ability to the shareholders?

Hon. Mr. ABBOTT: That is a misconception of course, Mr. Low, because the amount standing to the credit of the inner reserves cannot be distributed to shareholders until it is brought into income and tax paid on it. Its primary function is to protect the position of the depositors. You do also have to protect the investment of shareholders which is relatively small compared with the liability to depositors, but the amount standing to the credit of inner reserves cannot be distributed to the shareholders until it is brought into income and tax paid on it.

Mr. Low: I was going to ask if there was any adverse experience by the banks prior to the time that the inner reserve idea was adopted, but of course the origin of it is somewhat obscure and for that reason I do not suppose I could expect an answer?

Hon. Mr. ABBOTT: I understand—and again I am subject to correction on this—that the maintaining of inner reserves goes back beyond the establishment of the first bank in Canada.

Mr. Low: Have there been many transfers out of the general loss reserve in recent history?

Hon. Mr. ABBOTT: Again subject to correction, I think there have been none since 1945 or 1946. Is that correct, Mr. Elderkin?

Mr. ELDERKIN: No excessive ones. There have been transfers voluntarily or under the fourth section of the rules where the reserves have become greater than permitted and have been transferred accordingly.

Mr. Low: But there have not been many in number.

Mr. ELDERKIN: No.

Mr. Low: I notice the footnote to the exhibit on page 1083 of the evidence of this committee which is interesting. It says:

Under these rules the aggregate of all general loss (or contingency) reserves as at the 1953 fiscal year ends would have amounted to \$19.7 millions if all banks had been holding the permitted maximum reserves.

I take it from that statement that the aggregate of all the general loss reserves of all the chartered banks would be less than \$319.7 million?

Hon. Mr. ABBOTT: That is correct. In no case did a bank hold its permitted maximum reserve, but in all cases they were adequate and reasonable and within a reasonable distance of the objective.

Mr. Low: At least the members of the committee know and of course the general public could easily come to know that the inner reserve is not greater than that \$320 million aggregate?

Hon. Mr. ABBOTT: That is correct

Mr. Low: That information, I think, is going to help remove a good many—shall we term them “suspensions”? There have been suspicions in the minds of the general public?

Mr. MACDONNELL: They suspect that it is billions and not millions.

Hon. Mr. ABBOTT: Yes, I have heard that in talking to people who think they are well informed.

Mr. Low: That being the case, Mr. Abbott, do you not think it would be well to remove any remaining suspicions and let the people have the aggregate? I do not suggest each bank's inner reserves be made known, but the aggregate of the general loss reserves should be made known as it may remove any possible further suspicions that people might have.

Hon. Mr. ABBOTT: We have been doing it on the basis of averages, is that not right, Mr. Elderkin?

Mr. ELDERKIN: Average losses not reserves.

Hon. Mr. ABBOTT: Well it is a matter of opinion. I must say I think if the general loss reserves are to continue to perform the function which they have in the past that we should indicate what the upper limit can be, indicate what the average losses are and then really the Act places on the Minister of Finance the responsibility of determining whether the reserves are adequate or excessive. I suppose that is the real point in connection with these reserves. Someone has to determine whether they are excessive or inadequate and parliament has placed that responsibility on the Minister of Finance.

Mr. Low: Am I right, Mr. Abbott, in assuming that the ceiling limit as given in the footnote to exhibit 31 would change, as perhaps the total deposits of the chartered banks would change, in the years ahead?

Hon. Mr. ABBOTT: It would change, I would take it, as the assets of the chartered banks and the liabilities of the chartered banks change.

Mr. Low: That is as the banks' holdings of securities become greater?

Hon. Mr. ABBOTT: That is right.

Mr. Low: Then you would change the ceiling limit?

Hon. Mr. ABBOTT: The ceiling limit would automatically rise and fall by the application of the formula.

Mr. Low: I noticed one point—that is, "C" under 4, subsection 2. You mention various percentages there: government of Canada, the United States and United Kingdom securities, Canadian provincial securities and other investments. I wondered if some of these other investments might include municipal debentures?

Hon. Mr. ABBOTT: I believe they do. The first two categories are senior government obligations; the second are Canadian provincial securities; and under other investments, securities of municipalities.

Mr. Low: Which would account for the ascending percentages?

Hon. Mr. ABBOTT: I suppose the view is that the senior government obligations have a somewhat lower loss possibly and on a descending scale until you come to municipal debentures.

The CHAIRMAN: Mr. Macdonnell?

Mr. MACDONNELL: Mr. Abbott, I would like to ask one or two questions. I think it is clear from what Mr. Low has already said that if the fear could be removed that some way or other this is a tax-evading scheme that the objection would disappear. For example, as you have already pointed out, all businesses have to have reserves. It is important for them; but in the case of a bank the reserves are far more important because they affect not merely the shareholders, as is true in the case of ordinary business, but also the depositors. Now, you have pointed out the interest of the shareholders and the depositors and also the interest of the borrowers and I take it if the bank feels in a strong position with regard to reserves they are more ready to take a legitimate business chance than they would be if they did not have that feeling. After all, a bank which does not ever make a loss is probably the worst bank ever invented because it means they are not taking business chances.

The CHAIRMAN: Mr. Macdonnell, would you care to change seats with the minister?

Mr. Low: I'll bet the minister would not mind!

Mr. MACDONNELL: Mr. Chairman, I am merely trying to lay a foundation for my question. I think Mr. Abbott has indicated to us the precautions that are taken to prevent this being a tax-dodging scheme. I think that is what he said in evidence, but it seems to me it would be desirable to have that made clear beyond peradventure.

Now, the other thing I want to ask you is this: it is suggested, why not have everything in the exposed reserve? The question I would like the minister to elaborate a little further is whether he thinks there would be damage to the reputation of a bank? Supposing a bank does take a whopping big loss? I remember being told years ago of a bank doing business in South America and due to an entirely unexpected situation they made a thundering loss running into millions of dollars. Actually, it was more than their inner reserves could take care of. I am told that in the next annual statement of

that bank the bank premises had to be greatly increased in value to help take care of that loss. That seems to me to show the kind of loss that can take place—and I want to ask the minister this question, Mr. Chairman,—would be explain a little further—the injury from the point of view of the depositors and the public, if every mistake that a bank makes has to be treated publicly and exposed to the public gaze—which is really what will happen if you have the whole of the inner reserve exposed to the public gaze.

Here also in exhibit 31 I wish you would elaborate a little on the limitations which I think are put on the inner reserves because again let me ask him if he does not agree that if the feeling could be removed that this is a tax-dodging scheme, I think everyone would realize that it has great benefits?

Hon. Mr. ABBOTT: Well now, let me see, Mr. Chairman. First, on the last point that Mr. Macdonnell raised about convincing the public that this is not a tax-dodging device, I quite agree that that is the important factor here. The public must be satisfied that the setting aside of these amounts into a reserve is not a means of dodging taxes but as I said a moment ago, at best it can only be a method of tax deferment because those amounts set aside cannot be distributed as profit until they have been brought into income and tax has been paid on them. I think that is the first point.

I do think a good deal of the misconception which exists in the minds of the public about these inner reserves was cleared up as a result of the discussion before the committee in 1944. There was a full and explicit discussion then and a great deal of information was given. Mr. Ilsley made what I think was an admirable statement and if there are members of the committee who have not had time to read it I wish they would, because it is an excellent statement and I think a good deal of that misconception has been removed as a result of it. The whole question, as I said a moment ago, if people would realize it is whether the amount set aside is excessive or on the other side inadequate and that is of course a matter of judgment. Now, as I said at the outset, banking is essentially a matter of confidence. You have millions of depositors who put their money in banks and the banks' assets consist of securities and loans to individuals and loans to businesses and so on and so forth. A relatively small part of their assets are held in cash, so it is quite clear that if everyone calls for their money at the same time and the bank has to realize on its notes in the hands of customers and sell its securities you could have a very embarrassing situation both for the bank and the depositors. It is for that reason that going back I daresay a hundred or perhaps two hundred years, the method of providing an inner reserve against which losses of an exceptional character in one year can be charged, without disclosing to the public that a very heavy loss has been suffered at that time, has been found an essential part of the business of banking. The reason for that is that the average person is not capable of determining whether a big loss in a particular year is within the capacity of the bank to absorb without impairing the position of the bank. Something of that kind coming in a particular year could result in very unfavourable and undesirable consequences to a particular bank and its depositors and this method of inner reserves enables losses of that kind to be averaged so far as the general public are concerned over a reasonable period of time. Now, perhaps this formula which we are now using should be revised from time to time. It is obviously not the last word but it is the result of quite a good deal of experience over the years and at the moment we believe it is a reasonable formula. I do not know if there is very much I can add to that. As I said, somebody has to take the responsibility of determining whether the reserve is adequate or not and that person under our law is the Minister of Finance acting of course with the advice and assistance of the inspector general of banks, an office which the committee knows was created in 1924.

Mr. MICHENER: May I ask a question on that point? Is there any possibility of the bank obtaining a tax advantage by selecting the year in which it brings its profits out of the reserve into taxation and thereby getting a better or more favourable rate, or does the formula prevent that?

Hon. Mr. ABBOTT: The formula does not prevent that, of course, because the bank can provide for inner reserves up to the ceiling prescribed by the formula and it can make provision for that transfer to an inner reserve when it has profits available for that purpose. If you have sharply changing tax rates perhaps one could argue it would be possible to put it in when rates are high and take it out when rates are low.

Mr. FLEMING: But they never are!

Hon. Mr. ABBOTT: Thank you.

But I was going to say that chances of jockeying of that kind are rather slim. The minister has two responsibilities, first to make sure, to determine that the reserve is adequate and secondly to determine that it is not excessive.

Mr. MACDONNELL: Could I just ask you to take us briefly through this exhibit No. 31 explaining how each part relates to the other; first, the inner reserve of a bank?

Hon. Mr. ABBOTT: I was going to say on the application of the formula which as the committee appreciates is rather technical, quite frankly I rely upon the assistance of the inspector general of banks who is an officer of the Department of Finance.

Mr. MACDONNELL: This was covered, I think, in a general way at any rate before, but I would just ask Mr. Elderkin if he would run briefly through the three items: the inner reserves, the tax paid reserve, and then in particular subsection 3 of No. 4 which explains the application of the one-fifteenth formula?

Mr. ELDERKIN: The tax paid reserve referred to in paragraph 2 consists of any amounts which may have been tax paid or tax free. There are practically no tax free additions now. There used to be occasions of the sales of bank premises when there was a tax free recovery of a capital profit, but since the change in income tax regulations this type of profit has practically passed out of existence; therefore the tax paid reserves so-called now can only be increased, with very minor exceptions, by paying tax on the amount that is paid into it. That, of course, is a shareholder's reserve to the extent that it has already borne all the tax which is applicable and could be transferred to published reserves without paying further tax.

The second one, "specific appropriations reserve" is the sum of all the amounts which are applied to provide for losses on loans, securities and other investments. It is carried in a revolving reserve, one might say, because of the fact that that amount changes from time to time as market valuations change. The specific appropriations reserve is created out of the general loss reserve and any excess is transferred back to the general loss reserve.

Mr. MACDONNELL: Now, when you come to the general loss reserve, will you comment particularly on the word "prescribed." Is that prescribed?

Mr. ELDERKIN: That is prescribed by the minister.

Mr. MACDONNELL: Is that a ceiling or a roof?

Mr. ELDERKIN: That is the amount—the ceiling which is prescribed by the minister—subject to paragraph 3, when we come to it.

Mr. MACDONNELL: There is no obligation to keep it to that?

Mr. ELDERKIN: No.

Mr. MACDONNELL: It is purely a ceiling?

Mr. ELDERKIN: Yes.

Mr. MACDONNELL: You do not wish particularly to go through the detail of the individual items?

Mr. ELDERKIN: No. If we go to paragraph 4 we find the provision that if the reserve is greater than the par defined above, one-fifteenth must be transferred to income.

Mr. MACDONNELL: How does that figure out?

Mr. ELDERKIN: The selection of one-fifteenth is purely arbitrary. I might say in parenthesis here that in the American reserve formula any excess which arises is not taxed off but is allowed to work itself out with losses or the growth of the assets of the bank. Here there is the extra factor or provision which provides that if an excess occurs it will be taxed off at a one-fifteenth positive basis. That does not come into operation very often because the only way that can occur is by the fact that the recoveries referred to up above have pushed the general loss reserve above the ceiling provided. It could not arise from a transfer in the current year to the reserve from profits because transfers are not made until all the other transactions take place and they are not permitted if the prescribed aggregate have been reached.

Mr. MACDONNELL: And when that happens it goes right into the annual earnings?

Mr. ELDERKIN: The one-fifteenth of the excess goes into the earnings. In all probability the growth of the assets or new losses will wipe out the remainder of that excess in one year's time, but there is a positive factor of taxable reduction of one-fifteenth. Paragraph 4 requires no explanation—it simply says that the bank is free to make up any deficiency in the reserve from taxable profit.

Mr. Low: You have been speaking, Mr. Elderkin, about No. 3 up to this time. You did say 4?

Mr. ELDERKIN: I just now mentioned 4.

Mr. Low: I think you referred to it as 4 previously?

Mr. ELDERKIN: I am sorry if I did. I meant 3. Three is the positive reduction feature in the formula.

Mr. MACDONNELL: And No. 4 is not a requirement but a permission?

Mr. ELDERKIN: Yes, at all times that is left, within certain bounds, to the discretion of the bank management.

Mr. CANNON: Before we go on to something else, could I ask one question. Did I understand correctly that you said at the present time hardly any tax is paid on item 2 in exhibit 31?

Mr. ELDERKIN: No, I said there were hardly any additions made to it today from non-taxable profits. There was a time when additions were made to it from capital profits such as profits on the sale of bank premises which at one time was a capital profit but in 1949 you will recall the Income Tax Act was changed and now there are no capital profits on the sale of bank premises. They go into a depreciating asset pool. So there is practically no way in which a bank can add to that reserve today except from taxed profit.

Mr. CANNON: Does that constitute a large part of the total reserve?

Mr. ELDERKIN: I would refer that to the minister.

Hon. Mr. ABBOTT: I would have to look it up. I do not know at the moment. Those are not published reserves of course.

The CHAIRMAN: Mr. Macdonnell?

Mr. MACDONNELL: One supplementary question: would you recall to our minds and make some general comment on the necessity which certain institutions have had, both banks and others, of making transfers from their exposed reserves in other words, taking care of losses from exposed reserves within the last ten or fifteen years?

Mr. ELDERKIN: In 1933, if I remember rightly, there was \$29,500,000 transferred from the inner to the published reserves. I am glad to say that turned out to be a precautionary move and not a necessary one, and all of these amounts have since been returned to the published reserves.

Mr. MONTEITH: They would be tax free when transferred back?

Mr. ELDERKIN: Yes, they would be tax paid before they were put in there. They would not have been transferred to the general loss reserve but to the tax paid reserve inside.

The CHAIRMAN: Mr. Cameron?

Mr. CAMERON: Mr. Abbott, on March 3, Mr. Quelch had a question answered on the order papers in *Hansard*, page 2615, referring to the contingency reserves and one of these questions was: "Were any of these transfers considered to be in excess of their reasonable requirements?" And the answer given by Mr. Benidickson was that there have been no excess transfers to contingency reserves for the years 1946 to 1952 and subject to final order, none for the year 1953. Now, I presume that answer to imply there was none in excess of the formula?

Hon. Mr. ABBOTT: Yes, that is correct.

Mr. CAMERON: Not on any other consideration whether they were not in excess or not?

Hon. Mr. ABBOTT: That is correct.

Mr. CAMERON: Now, Mr. Abbott, what would you consider would be a reasonable ratio between the actual transfers in the contingency reserves and the actual loss experienced? I mean, should it be 2, 3 or 4 times?

Hon. Mr. ABBOTT: I do not know if I would have any view on that. I think I would proceed on this assumption that the formula having been worked out as a reasonable formula to determine the maximum inner reserves which a bank might hold, I would assume that transfers from time to time to that reserve until it came to that maximum would not be excessive and I would assume they would be made from time to time as the profits of the year would justify.

Mr. CAMERON: Well, on page 795 of our proceedings here, exhibit No. 11, we have some figures regarding the average annual amount required for losses. You will note, Mr. Abbott, that it runs from \$12.2 million in 1945—drops the next year to \$9.4 in 1947 right down to 1953 when it is reported as 7.8 million—page 796. Now, as against that we have the statement that I referred to in *Hansard* on March 3, 1954—page 2615—which gives the transfers to contingency reserves for these years from the banks. Now, I notice that in 1945 it was not quite twice the average loss for the 15-year period ending 1945, that in 1946 there was a net transfer from contingency reserve to open reserve of nearly \$7 million and then we go on to the other years and we find they run to over twice the actual average loss experienced and that has kept right up to the present day. In fact, in 1952, it was almost three times. It was almost four times in 1953—now, would you not think in the light of that there should probably be some reviewing of the formula?

Hon. Mr. ABBOTT: Well, I have not those figures before me, Mr. Cameron, but I am assuming of course you have accurately stated them. It is purely a matter of opinion. The years to which you were referring I think we will all agree were exceptionally prosperous years and I think it is generally pretty fair practice in the fat years to make some provisions for the possible lean years so that I would not necessarily come to the conclusion that because the average transfers during those years were substantially in excess of the

losses experienced during those years that we should necessarily consider a revision of the formula. I have some recollections and perhaps you have of years where bank losses and other losses were somewhat greater than they have been in the last five or six years.

Mr. Low: But you do not expect those lean years to come?

Hon. Mr. ABBOTT: I would certainly hope not, Mr. Low, but the lesson of history is that there are always some years that are leaner than others and I do not believe the millennium has yet arrived in spite of sound government over a number of years.

Mr. MACDONNELL: May I quote you?

Mr. CAMERON: But I understand the soundest pillar of government is about to disappear, so in this regard perhaps we had better consider the matter carefully. I would point out the figures go back over the worst years Canada has ever known—

Hon. Mr. ABBOTT: But they are averages.

Mr. CAMERON: Yes, they are averages from 1930 to 1945. The average loss, including those years, was only \$12.2 million, and the transfer to contingency reserves in the year 1944 was \$22 million. Therefore, does it not seem there is some sort of excess there?

Hon. Mr. ABBOTT: As I say, that is a matter of opinion, but of course, as well, there is the point that these inner reserves must also take care of fluctuations in security prices resulting in changes primarily resulting from changes in interest rates.

Mr. CAMERON: Yes, I realize that.

Hon. Mr. ABBOTT: I assumed you did.

Mr. CAMERON: But there are other considerations to be considered in connection with this. In the year 1945—by including 1945—we had an average loss rate of \$12.2 million for the proceeding 15 years when in the year 1945 we had \$22,244,000 transferred to contingency reserves in that year. The net profit of the chartered banks after all these appropriations was still more than the average loss which was \$12½ million in one of the worst periods up to 1945, and then it dropped considerably. Why is it necessary to have any addition to these very handsome profits which in each case cover several times over the average loss rate? Why is it necessary to have these very large inner reserves in addition?

Hon. Mr. ABBOTT: As I pointed out in the formal statement which I made at the opening of the meeting I wished to emphasize an important point that to fulfil their proper function these inner reserves should be sufficient to meet the impact of peak losses which may occur in any year or in consecutive years and for that purpose they must be very much larger than the average loss experience figure would indicate to be necessary. As I said a moment ago, the top level for these reserves must be a matter of opinion and at present under the statute your humble servant has the responsibility of determining that.

Mr. CAMERON: The reason I was asking you this is because you now have told us that you rely to some extent—quite understandably—on the advice of your officials. Now, I was quite interested the other day—you will find it at page 955 of our proceedings—when I was discussing with Mr. Elderkin the possible loss ratio, a discussion that finally resulted in the production of the figures we had filed at our last meeting. I refer you to page 955 of the evidence where I asked Mr. Elderkin this question:

Q. What do you think the rate would be then?—A. It would depend entirely on the bank and I think it would go quite a bit higher than three-quarters of one per cent.

Q. Could you hazard a guess what it might come to?—A. It would depend on the period which we take.

Q. Let us take it for the period you gave us?—A. For the 10 years?

Q. Yes, the period you gave us from 1930 to 1940?—A. I would not want to be too close on it—it would be well over one per cent.

Q. Would it be 2 per cent?

Now, Mr. Elderkin seems to figure he could not tell us for sure what it would be in that period but in light of the average loss ratio that was filed at our last meeting I would suggest Mr. Elderkin was far too pessimistic. On page 1199 we were discussing the 15-year period from 1930 to 1944 which includes the 1930 to 1940 period, and Mr. Elderkin and I were discussing the average rate of loss—now, apparently, Mr. Elderkin figured it might be three or four times as much as that?

Mr. ELDERKIN: Could I interject to say we are talking about completely different periods. In my evidence we were talking about the period from 1930 to 1940, and not from 1930 to 1944.

Mr. CAMERON: The period I am talking about includes that period and includes the worst part of it.

Hon. Mr. ABBOTT: Of course it is necessary to bear in mind, Mr. Cameron, as I know you do, today there is very much more at risk as all the banks have been constantly expanding the holdings of both deposits and government securities.

Mr. CAMERON: We are speaking of ratios, which remain constant.

Hon. Mr. ABBOTT: Yes.

Mr. CAMERON: And it is the ratios I want to get at, and that is why I say I brought that up. I wondered if you and your officials do not tend to be pessimistic?

Hon. Mr. ABBOTT: As I said in my statement, I would rather err on the side of having too much in the reserve than too little, it is a matter of opinion and a matter of judgment.

Mr. CAMERON: Did I understand correctly from you and Mr. Elderkin that in effect fourteen-fifteenths of all the excess—the possible excess—of contingency reserves escapes taxation?

Hon. Mr. ABBOTT: No, that is not correct. It would be worked off at the rate of one-fifteenth a year.

Mr. ELDERKIN: If the assets were static and that excess occurred—the excess would be removed at one-fifteenth a year—it would never escape taxation—but it might be deferred.

Mr. CAMERON: Do you not think, quite apart from the question of tax escape, that it creates a somewhat false impression in the public mind and apparently you are very concerned about the effect on the public mind—a false impression on the public mind—about what actually are the net profits of the chartered banks?

Hon. Mr. ABBOTT: I would not think so, Mr. Cameron. If you have a ceiling, as we have here, on the amount that can be provided for these so-called inner reserves and since most of the banks are, as I said before, within measurable distance of the ceiling, I do not think it gives a false average of the average earnings of the banks over a period of time.

Mr. STEWART (Winnipeg North): Would it not be possible in this sense? The amount which is put to contingency reserves is a charge against profit before the profit figures are officially published and the banks are entitled to charge against contingency reserves and transfer to the general reserves or surplus certain sums on which they paid taxes. \$19,500,000 was apparently

transferred according to exhibit 30 over the last 10 years? Now, that \$19,500,000 would not appear in the published profits at all, would it? But had it been transferred to the general reserves it would have been shown more clearly as profit. Therefore the profit figures should be that much higher as far as the public is concerned even although the banks paid taxes on the transfer? It may be an increment of profits of some \$19,500,000 over these years—I think that is the point Mr. Cameron makes?

Hon. Mr. ABBOTT: I do not quarrel with that statement.

Mr. CAMERON: I notice you mentioned a possibility that had to be borne in mind. I do not know if you meant it seriously but it was something to the effect if everyone called for his money at the same time there would be quite a mess. I am not sure whether you meant that seriously or not. Would you seriously suggest today there is a possibility of such a run?

Hon. Mr. ABBOTT: I would think not so Mr. Cameron. But, I think it would be undesirable that we should so arrange the publication of our banking figures in such a way that there could be invidious distinctions between different banks—unfounded perhaps—as to either the solvency or the efficiency of certain banks although I agree—at least I hope—that the day of bank failures in Canada is past.

Mr. CAMERON: That brings me to the point—

Hon. Mr. ABBOTT: Prophecy is still a very dangerous form of exercise, you know.

Mr. CAMERON: Yes, we shudder at the thought of it. What would you think is the probable reason for your confidence, which I am sure is shared by everyone in this room, that the day of bank failure in Canada is over?

Hon. Mr. ABBOTT: There are two reasons: first, the establishment of a central bank in Canada with the rediscount facilities and so on which are available through that institution and secondly the creation in 1924 and the development of the office of inspector general of banks with the increased supervision which it is possible to exercise over the operation of the banks and the additional information which is made available to the minister with respect to the financial position of the banks. I would attribute shall I say, the decreased possibility of a bank getting into serious difficulties to those two factors.

Mr. CAMERON: Now, Mr. Abbott, would it be too much to suggest that no government in Canada would today permit a bank to fail?

Hon. Mr. ABBOTT: Well, I would hope that the present government would use its best efforts to avoid that contingency, but I cannot answer for any other government.

Mr. CAMERON: Shall I put it this way, Mr. Abbott? You, as the Minister of Finance would, if necessary, advise your colleagues to take any step necessary to prevent the failure of a bank today?

Hon. Mr. ABBOTT: That is a very astute question. Neither the government nor anyone else today is guaranteeing the solvency of a bank. It is the prime responsibility of the managers of the bank—that is what they are paid for.

Mr. CAMERON: Then, Mr. Abbott, if that is the case, I think that contradicts your previous statement that your confidence in the banks is based to a large extent on the central bank because did not that statement imply that we now have an integrated banking system of which the central bank is one part and the chartered banks the other part?

Hon. Mr. ABBOTT: I am not sure what you mean by integrated.

Mr. CAMERON: By which no one part will be allowed to collapse?

Hon. Mr. ABBOTT: The Bank of Canada is performing in my opinion, very efficiently the function of the central bank. The eleven commercial banks

are performing, in my opinion again, very efficiently the function of commercial banks and if by an integrated banking system you mean that the Bank of Canada is fully and fairly and efficiently performing its function as a central bank and the commercial banks are providing credit to credit worthy borrowers in Canada and are serving the depositors in Canada efficiently I will say "yes", but the Bank of Canada is not guaranteeing the deposits of the chartered banks.

Mr. CAMERON: Would you agree to this, Mr. Abbott, that the banking system is sufficiently a unit today that no one part of it would be allowed to collapse?

Hon. Mr. ABBOTT: I would hesitate to go quite as far as that, Mr. Cameron.

The CHAIRMAN: It is not that question he is worried about, Mr. Cameron, it is the next one you are going to ask that is bothering him!

Mr. CAMERON: But nevertheless in the main would you agree with that?

Hon. Mr. ABBOTT: Agree with what, Mr. Chairman?

Mr. CAMERON: Well, shall we say that your particularly sapient government would never allow the failure of a bank in Canada?

Hon. Mr. ABBOTT: I would say our particularly sapient government would do everything it possibly could within the limits of its constitutional responsibility to see that no bank failed, but the government—let me add to that—neither the government or the Bank of Canada is guaranteeing the solvency of any individual bank. That should be made perfectly clear.

Mr. CAMERON: But, on the other hand, what constitutional bars stand in the way of the government preventing a bank failure?

Hon. Mr. ABBOTT: I suppose there is no constitutional bar. The government could take taxpayers money and pay the depositors of an insolvent bank but I think parliament would have to vote the money.

Mr. CAMERON: You told us you would do that if necessary?

Hon. Mr. ABBOTT: No.

Mr. CAMERON: You said it would do everything in its constitutional power?

Hon. Mr. ABBOTT: Perhaps I should say it would do everything it "properly" could do. I made it perfectly clear, however, in all my answers to your questions that nevertheless the government would not guarantee the solvency of any individual bank.

Mr. CAMERON: I have tried several times to find out on what occasion the chartered banks have had to dip into their reserves to meet losses and on each occasion I have been referred back to a period prior to 1934.

Hon. Mr. ABBOTT: You are speaking of inner reserves?

Mr. CAMERON: Yes. Would you agree, Mr. Abbott, that while that was a particularly bad economic period for Canada that the really important thing as far as the banks are concerned—the really important distinction between that period and the present day as far as the banks are concerned—is the development of a modern banking system including a central bank? That is really the principle difference?

Hon. Mr. ABBOTT: It is the principle difference as far as the banking system is concerned, but not as far as the economic condition is concerned. We went through a very unfortunate period in the thirties of a world depression. We have not had any similar experience since then and I for one devoutly hope we will not, but I am not foolish enough to say that we will never have periods, under which for one reason or another—international conditions or something else—economic conditions will not be very much more adverse than they are today.

Mr. STEWART: Preferably under another government.

Hon. Mr. ABBOTT: Oh, by all means, Mr. Stewart. I would say almost certainly under another government.

Mr. CAMERON (*Nanaimo*): Would you agree that as regards the banks' solvency, the solvency of the chartered banks, that the main distinction between those two periods is that out of the latter period there has been developed a modern banking system?

Hon. Mr. ABBOTT: I think there was a modern banking system before that, I cannot accept your premise that there was not, and that the Canadian commercial banking system has only been efficient since 1934 when the Bank of Canada was established. I think there was a very good banking system before that time, and I think it has been made more efficient now as a result of the creation of the central bank. But I would not say it is any more solvent than it was before 1934.

Mr. CAMERON (*Nanaimo*): Would you say that the chartered banks were not more flexible before the establishment of the central bank?

Hon. Mr. ABBOTT: I think that is correct. I think that the facilities under the old Dominion Finance Act were not as good as the facilities which are available now under the Bank of Canada, for the rediscount of some of their assets and the obtaining of available cash to meet excessive demand.

Mr. CAMERON (*Nanaimo*): You would agree that it diminishes the danger of insolvency?

Hon. Mr. ABBOTT: I would hope so.

Mr. CAMERON (*Nanaimo*): That is the reason I have questioned the continuation of this extremely generous transfer of funds from profits to the contingency reserves as there is an entirely new development in banking.

Hon. Mr. ABBOTT: I appreciate the point you have been making, Mr. Cameron, and making it very well. It is a matter of opinion and it may be that the formula should be changed. I do not necessarily concede that it should be changed now, but it certainly should be kept in constant review.

Speaking personally as the man who has to advise on ways and means of getting \$4½ billion or \$4¾ billion a year, I have not the slightest objection to getting all I can get of that amount out of the banks. Let there be no misunderstanding about that.

Mr. CAMERON (*Nanaimo*): I wonder if you would have said that last year?

Hon. Mr. ABBOTT: Anything I say I am prepared to say at any time, be it last year, this year, or next year.

The CHAIRMAN: Now, Mr. Fleming.

Mr. FLEMING: Mr. Chairman, my first question arises pretty much or to some extent from Mr. Cameron's question. Now, Mr. Abbott, as long as the tax position of the country is properly protected and income earned is properly taxed, what harm could the public—including the depositors of the bank—possibly suffer from the maintenance by the banks of high reserves?

Hon. Mr. ABBOTT: I thought I had tried to make that perfectly clear. I do not think that these inner reserves created out of profits before tax should be excessive although, as I have said, it only means postponing liabilities for tax. I think that they should be fully adequate, and since it involves the exercise of judgment I would prefer to err on the high rather than on the low side. The only adverse effect so far as the revenue of the country is concerned is that any liability of those earnings for tax may have been deferred.

Mr. FLEMING: I was hoping you would say it as positively as this.

Hon. Mr. ABBOTT: Well, you put the words in my mouth and I will see what I can do about it.

Mr. FLEMING: Provided everything that is properly taxable as income of the banks is submitted to tax, there can be no harm whatever to the public from maintaining high reserves whether of the inner kind or the exposed kind.

Hon. Mr. ABBOTT: No, I do not think any harm to the public can result from there being high reserves, but harm could result if they were excessive. I do not think it would be appropriate that the banks or any other institution should create reserves in excess of what can properly and reasonably be required for the purpose for which they are set aside. The question of their adequacy or inadequacy must of necessity be a matter of opinion.

Mr. Low: Would there be any point in a bank creating excessive reserves?

Hon. Mr. ABBOTT: The only purpose I can think of would be that in future years taxation would be substantially less.

Mr. FLEMING: What a hope!

Mr. FRASER (*Peterborough*): Not with this government, anyway!

Hon. Mr. ABBOTT: And there is a point, too, that if it could be done without limit, it might be possible for people to profit who had some inside knowledge; that is a point, and it should be appreciated; and that is one reason for our having a formula as a guide to the minister in determining what the top level should be.

Mr. FLEMING: Referring to your duty to report any excess of reserves to the Minister of National Revenue, have you during the period in which you have been Minister of Finance ever had occasion to make such a report to the Minister of National Revenue?

Hon. Mr. ABBOTT: No, not since 1946.

Mr. FLEMING: Are you aware of any report which was occasioned to be made by any of your predecessors?

Mr. ELDERKIN (*Inspector of Banks*): For three years, Mr. Fleming, 1943, 1944, and 1945.

Mr. FLEMING: What about 1945? Was that not subsequent to the last revision of the Act?

Mr. ELDERKIN: They were reported in an exhibit which was tabled in the House of Commons; it was about \$375,000 altogether for the two last years.

Mr. FLEMING: How many banks were involved?

Mr. ELDERKIN: Three.

Mr. FLEMING: Is there any reason why the figures should not be given for each bank?

Mr. ELDERKIN: The amount was tabled only in the aggregate, not according to individual banks. It was the aggregate for each of the years. I have not got it available, but I could get it.

Mr. FLEMING: You could give it to the committee later.

Mr. ELDERKIN: Yes.

Mr. FLEMING: Do you happen to know what was done in those three cases, in the first two years, by the Department of National Revenue?

Mr. ELDERKIN: It was taxed.

Mr. FLEMING: Now, Mr. Abbott, you gave us two reasons whereby you considered that a bank failure is virtually unthinkable now.

Hon. Mr. ABBOTT: I do not think I used that term, but I shall not quarrel with it too much.

Mr. FLEMING: You used your own terms and I thought that this was a fair interpretation of what you said.

Hon. Mr. ABBOTT: I always prefer to say "most unlikely".

Mr. FLEMING: Is there not another reason which I put forward seriously here, and it is the standards and efficiency of the banks leadership in this country and the high integrity and sense of public responsibility that the banks exercise?

Hon. Mr. ABBOTT: Oh, I quite agree, and that, generally speaking, has been the case for a good many years. In the early years of Canadian history where there was a large number of banks, smaller banks, and with perhaps greater hazards than there are today we did have more bank failures. But most of the banks operating today have a very long history of competent management with complete security so far as the funds of the depositors are concerned. I quite agreed in my speech on the second reading of the Bank Act and I paid a tribute to the quality of management of our Canadian banks, just as my predecessor did 10 years ago.

Mr. FLEMING: The next question is rather more general. I do not know what opportunity you have had to follow the proceedings of this committee closely, but we have had the evidence of Mr. Towers, and I am speaking of the contact between your department or the government and the chartered banks. And we have had the evidence of Mr. Towers as to the relationship between the chartered banks and we have had the evidence of Mr. Taylor and Mr. Elderskin. Now, one has formed the impression that, broadly speaking, the Department of Finance has only had a very limited contact with the banks. Now, broadly speaking, such governmental functions as are exercised over the chartered banks are left to be exercised through the Bank of Canada.

Hon. Mr. ABBOTT: Well, if you mean direct contacts with the banks, that is true. They are carried on through two channels. So far as the Department of Finance is concerned, the direct contact is through the Inspector General of Banks who is an officer of the Department of Finance. But the more day to day relations with the commercial banks are, of course, carried on through the Bank of Canada. That is true.

Mr. FLEMING: I take it that apart from the question of the decennial revision of the Bank Act, and the renewal of the ten-year-bank charters—that was virtually—perhaps I should not say that—but it is very little in relation to the operation of the chartered banks, and it comes before you in your activity as Minister of Finance.

Hon. Mr. ABBOTT: I do not know that I would like to go quite as far as that. The relations between the Minister of Finance and the Bank of Canada, as you are no doubt aware, are fairly close.

Mr. FLEMING: I was putting that aside. I was speaking of your relationship with the chartered banks.

Hon. Mr. ABBOTT: I do not know what you mean by "relationship with the chartered bank." If you mean consideration by the minister as to the credit policy being pursued by the chartered banks, that comes to the minister through the Bank of Canada. That is true. And the Deputy Minister of Finance, as you are aware, is a director of and a member of the executive committee of the Bank of Canada. Questions relative more particularly to the character of the assets of the banks or their solvency and so on are reported to the minister through the Inspector General of Banks. And I must say that in the years during which I have been holding the portfolio which I do now, I have had fairly constant and personal contact with the senior officials of Canadian banks. They come to see me from time to time and I have made it a point of trying to attend the annual dinner of the Canadian Bankers Association and to tell them what good fellows they are. But I think we can take it for granted that the Minister of Finance of the day keeps pretty close tab on what the banks are doing.

Mr. Low: And do they tell you what a good fellow you are?

Hon. Mr. ABBOTT: Oh, modesty forbids my making a statement on that.

Mr. FLEMING: I want to say this to you now, that the next question I would like to ask you, Mr. Abbott, takes us into a different field.

Mr. TUCKER: Mr. Chairman, I would like to ask a couple of questions as well.

Hon. Mr. ABBOTT: I am sorry but I have to leave at 12.30.

Mr. TUCKER: One of the questions which I wanted to ask is—

The CHAIRMAN: Please, Mr. Tucker.

Hon. Mr. ABBOTT: You say you are going to move to another subject, Mr. Fleming?

The CHAIRMAN: Will you be here this afternoon, Mr. Tucker?

Mr. TUCKER: Yes.

The CHAIRMAN: Then would you mind permitting Mr. Fleming to proceed at this time. He can not be here.

Mr. FLEMING: This may be something which is not altogether free from controversy, but I want to go back to some of the evidence we heard in this committee last week.

The CHAIRMAN: Please proceed.

Hon. Mr. ABBOTT: I am sorry to say that I have not had the time to read it yet.

Mr. FLEMING: I would like to hear your comments on the suggestion or the possibility of calculating through government channels such as the Dominion Bureau of Statistics, the material needs of the Canadian people, and their wants, and then devising some monetary policy which will bring about the meeting of those needs and which will gear the money supply to that end and which will create whatever is thought to be a deficiency of purchasing power on the part of the entire Canadian people simply by the creation, by the stroke of a pen, of money through the Bank of Canada.

Hon. Mr. ABBOTT: Well, that is a pretty large order, Mr. Fleming.

Mr. FLEMING: That is what we thought, at the time.

Hon. Mr. ABBOTT: I have made a few speeches on that at one time or another. I remember in 1944 when my old friend Gerry McGeer was in action before the banking and commerce committee, and Mr. Arthur Slight also, and I went into the House and delivered a moving speech on the 100 per cent ratio and expansion of credit through the Bank of Canada. I do not know if I could do that before half past twelve again. I have forgotten exactly what I said on that occasion. I really do not know how to deal with your question. I do not believe that it is possible to have some expert, whether it be in the Dominion Bureau of Statistics or anyone else, go out and assess the exact needs of the Canadian people, and then have the Department of Finance decide how much credit is required to finance those needs under the Bank of Canada Act.

The Bank of Canada is charged with the responsibility of issuing, or exercising supervision over the monetary requirements of the nation; and the very important fact is that until Parliament sees fit to change the Bank of Canada Act and provide some other basis, that statutory responsibility remains upon the Governor of the Bank of Canada and upon the directors of that institution. But as I said in the House, when speaking about this question, the operations of the Bank of Canada in that field can be significantly influenced by the fiscal policy of the government; and if you have a government engaging in large-scale deficit financing, the most competent operations of a central bank would be largely frustrated. But I do not know whether you expect me to engage in a discussion of substantial expansion of credit. I am not a technician in the field, but of course I have some views on it.

Mr. FLEMING: Are you aware of any way in which, by the expansion of credit, by that very temptingly easy move, by the stroke of a pen on the part of the Bank of Canada, it is possible to get purchasing power into the hands of those who are said to be suffering from a deficiency of it without, at the same time, setting loose inflationary forces that would be virtually uncontrolled.

Hon. Mr. ABBOTT: No.

Mr. FLEMING: On the one hand, and on the other hand to see that purchasing power gets into the hands of those who are said to be suffering from a lack of it without such a measure of regimentation as I hope the Canadian people would never accept?

Hon. Mr. ABBOTT: I quite agree. I do not think that simply by maintaining the volume of money supply in the country, whether by the Bank of Canada or in any other way, beyond the needs or beyond the productive needs of your production you are going to solve the thing. As you have said, it would be inflationary. You have more counters than you have got goods and services to exchange for those counters.

Mr. STEWART: Surely that is dependant on the resources that are unemployed, and if you have got large-scale unemployment you can afford to put more money into the system?

Hon. Mr. ABBOTT: That is quite true. And that is a matter which involves the exercise of judgment. Under today's conditions, that judgment is exercised jointly by the management of the central bank and by the government of the day. In the final analysis the wishes of the government of the day must prevail. But I would hope that it would be exercised and—speaking from personal experience—I know that it is exercised after giving very careful consideration to the views expressed by those who are technically trained to assess the effect of such action.

Mr. Low: You would not rule out the possibility of resorting to a measure of expansion of the money supply in order to meet specific needs?

Hon. Mr. ABBOTT: By no means, Mr. Low. One example of that was in September, 1939, when the war broke out and there was substantial under-employment of both human and physical resources and there was a modest expansion of credit in order to help to take that up. But it is a matter of judgment as to the timing and what need and what circumstances justify an expansion of that kind.

How would you determine the circumstances? I would not want to generalize on it because I think it would be very unwise to attempt to do so. Circumstances such as existed in September of 1939, I think justified it.

Mr. Low: That would be ascertained by a pretty careful survey of the whole situation by yourself and the officers of the Bank of Canada?

Hon. Mr. ABBOTT: Well, it really involves an assessment as to whether inflationary or deflationary forces are in the ascendancy, and that is a matter of judgment.

Mr. FLEMING: There is one other thing. Are you prepared to comment on a matter which Mr. Towers felt he should not comment, namely, something which presumably must have the approval of the government and the Bank of Canada, the influencing of credit policy in Canada today? He gave us some examples which were not very recent. I do not wish you to comment on anything that has been done in that direction, but are you sure as to the direction in which the monetary action of the government is seeking to influence or direct conditions? And in the second place, what means are you using for that purpose?

Hon. Mr. ABBOTT: Well, that question is stated in rather general terms.

Mr. FLEMING: Could I enlarge on it or clarify it?

Hon. Mr. ABBOTT: Yes.

Mr. FLEMING: For instance, we asked Mr. Towers what steps the bank was taking to influence interest rates, whether by purchasing or selling government bonds on the market, through the banks, or otherwise and Mr. Towers spoke in quite general terms about what has been done. But I thought, and have felt for some time, that he was quite unwilling to discuss what has been done within recent months, feeling that he should not be put in that position. Do you feel any reluctance?

Hon. Mr. ABBOTT: No, I do not think I do. We appreciate that the level of interest rates in this country are largely determined by the interest rates prevailing in the United States. That is true of a great many other things in our economic life. And as you are aware, interest rates in the United States have been decreasing rather rapidly over the last year. I think it is fair to say that at some point of time last year there was a change of direction in the United States—a change of policy on the part of the Federal Reserve Bank. The level of interest rates in Canada has followed and as a consequence the price of Canadian securities has been rising; I mean the prices of existing securities. The spread between long-term interest rates in the United States and long-term interest rates in Canada has been steadily narrowing until today it is a little closer to what was our traditional position of about one-half of one per cent difference. I do not know that I should add very much to what Mr. Towers said.

Mr. FLEMING: You stated the facts and I think we are familiar with them. What I wanted to get, if you were free to comment on it, is the extent to which government policy is a factor in that trend of interest rates today; What the government means are in that respect, what means it is using to obtain the end with its taxation?

Hon. Mr. ABBOTT: Well, I think the government's objective must be to see that adequate money is available for desirable credit purposes and that it would be available to finance any development, any worthwhile enterprise in Canada which is entitled to credit. Given the conditions prevailing from time to time, and one's assessment of those conditions, should we have an easy money policy or a tight money policy. It is a matter of constant judgment, with an element of trial and error to see how things will work out.

Mr. FLEMING: I gather my question is quite specific and I gather that you prefer not to answer it in the terms in which I put it.

Hon. Mr. ABBOTT: I think it would not be helpful to the committee.

The CHAIRMAN: Let us now adjourn until 3.30 this afternoon.

Mr. MACDONNELL: Will the minister be with us then?

The CHAIRMAN: Yes.

AFTERNOON SESSION

4.15 p.m.

The CHAIRMAN: Gentlemen, I see a quorum.

Hon. Mr. ABBOTT: I am sorry, gentlemen, to delay you, but I had to listen to an hour and twenty minute speech on federal-provincial questions.

Mr. MACDONNELL: A very good one, too!

The CHAIRMAN: Gentlemen.

Hon. Mr. ABBOTT: Like some of the answers in this committee that is a question on which opinions differ.

The CHAIRMAN: Mr. Tucker?

Mr. STEWART (*Winnipeg North*): Before Mr. Tucker starts his questioning, there is a figure I should like to change in this morning's minutes—a figure which I used myself—of \$49 million. I should have used in its place the proper figure of \$19,500,000.

The CHAIRMAN: May I suggest, Mr. Stewart, that you make the change in the morning evidence? You have now informed the committee of the change.

(Correction made at appropriate place).

Mr. TUCKER: First of all, on the question of inner reserves that are maintained by the banks, how is that problem handled in the United Kingdom?

Hon. Mr. ABBOTT: I am afraid I have no detailed information on that but probably Mr. Elderkin could give you that information.

Mr. ELDERKIN: There are inner reserves allowed first for the actual losses on bad debts and secondly for provision for doubtful accounts, but there is no published formula of what the account is or how it is established and apparently it is a matter left in the discretion of the Inland Revenue department.

Mr. TUCKER: That is, the Inland Revenue department decides in the case of each bank how much the inner reserve shall be in the case of that particular bank and in that event it is not subject to taxation?

Mr. ELDERKIN: That is right.

Mr. TUCKER: And that has been the consistent policy in the United Kingdom up to the present time?

Mr. ELDERKIN: I do not know how far that goes back. My first record of it—the first time I dealt with it—was in 1946, but I know it had been in force for quite some time before that.

Mr. TUCKER: And what provision is there made for disclosure of the amount of that inner reserve in the United Kingdom?

Mr. ELDERKIN: There is no provision for disclosure. If you remember my evidence, Mr. Tucker, the Committee on Company Law headed by Lord Cohen recommended to the British government there should not be disclosure of inner reserves of banks or insurance companies and that recommendation was accepted.

Mr. TUCKER: And the previous government to this one did not change the situation at all?

Mr. ELDERKIN: I do not know how far that goes back, quite frankly, but certainly before 1946.

Mr. TUCKER: I take it from what you say then there is more disclosure of the amount—in effect, of the amount of the inner reserves—in Canada than in the United Kingdom because here we know the top limit which they can reach and that is not the situation in the United Kingdom?

Mr. ELDERKIN: Not to my knowledge, no.

Mr. TUCKER: Now, there is just one other point with which you could deal also, I suppose, Mr. Elderkin. It is referred to in the annual statement of the Royal Bank and was mentioned before but it is not clear in my mind just what happened in regard to the matter—page 2 of the statement for 1953 of the Royal Bank shows the reserve fund as including \$12 million transferred from contingency reserves in 1953. Now, of course, when that was transferred from contingency reserve to the reserve fund income tax would be paid upon it?

Mr. ELDERKIN: If it had not been paid upon it before, Mr. Tucker. It might have been included in the tax paid reserves before in which case the tax would have been paid in previous years.

Mr. TUCKER: But at any rate that must have been paid—income tax or corporation tax—before it was transferred either formerly or when transferred?

Mr. ELDERKIN: That would be completely tax paid when it was transferred to the published reserves.

Mr. TUCKER: Now, was that transferred on the volition of the bank itself, or because they were approaching the limit of their inner reserves?

Mr. ELDERKIN: The tax paid reserve would have no effect on the limit of their permitted inner reserve. That is, if these reserves had been paid inside it does not fall within the limit of the so-called contingency reserve.

Mr. TUCKER: Well then, I understand if taxes are paid on what the bank proposes to put into its inner reserve, there is no limit on the amount it can carry in such reserves.

Mr. ELDERKIN: Not as long as it pays taxes on it: It is specifically provided in the Bank Act that the minister has no jurisdiction over tax paid reserves.

Mr. TUCKER: So that I take it that this \$12 million that was transferred to the reserve fund from the contingency reserves would be transferred at the volition of the bank itself?

Mr. ELDERKIN: Entirely.

Mr. TUCKER: And the \$5 million which I see the Bank of Montreal transferred from contingency reserve to their reserve fund—the same would apply to that?

Mr. ELDERKIN: The same circumstances.

Mr. TUCKER: Were there any other cases in the period covered by the last financial statement of the banks where there were transfers from the inner reserves to the reserve funds of the banks beside those two?

Mr. ELDERKIN: No, I think that is the total of \$17 million which appears in one of the exhibits as being retransferred to the rest account.

Mr. TUCKER: Then there would be \$2 million from some other bank?

The CHAIRMAN: No, \$12 million and \$5 million—a total of \$17 million.

Mr. ELDERKIN: Yes, a total of \$17 million.

Mr. TUCKER: Yes, I was thinking it was \$10 million. The purpose of this transfer would be to show the bank to be in a better position, would it not?

Mr. ELDERKIN: Yes, to strengthen the outside position.

Mr. TUCKER: And would not that motive operate to have the banks carry as much as possible—as much as was safe—in their open reserve rather than in their inner reserve? The same motivation that would operate in regard to all the banks as in causing these two banks to transfer \$17 million from the inner reserve to the open reserve?

Mr. ELDERKIN: I think various things would be taken into consideration, Mr. Tucker. They might have considered that they had sufficient in their tax paid reserve inside or more than sufficient and that they should add to their published shareholders' funds.

Mr. TUCKER: What I am getting at is: actually, when it is thought that the banks might be inclined to build up tremendous inner reserves, once they have enough in that inner reserve to cover the purpose for which it is set up, they have more to gain by carrying it in the actual reserve than in the inner reserve, because in the inner reserve it does not do them any good whatever but in the outer reserve it assures the public of their strength and stability?

Mr. ELDERKIN: Once they have reached the maximum prescribed by the minister for these reserves which may be created out of taxable profit then I think that is correct.

Mr. TUCKER: Now, on the question that was being asked this morning,—I do not know whether I am right in my deduction from the evidence given or not, Mr. Abbott,—but you made it very plain that you were not underwriting any bank or guaranteeing the solvency of any bank, yet on the other hand you felt the banking system was so set up that there need be no fear of any bank failure, as I take it?

Hon. Mr. ABBOTT: I think the words I used were—"such a contingency was most unlikely,".

Mr. TUCKER: As I understand it, the attitude is that if the banks carry on properly the system is so set up they do not need to fail but if they carry on improperly the government will not stand behind any untoward results to them? As I understand your evidence, that is what you said—or does your evidence go farther than that?

Hon. Mr. ABBOTT: The responsibility for the soundness of the loans made by the banks rests with the management of the banks. Of course, the inspector general must inspect their operations and must see that the proper reserves are maintained and charges made against them as far as they go, but the management of the banks must decide on the type of loans they make and so on—these things must rest with the management of the bank.

Mr. TUCKER: Being very much against socialism as I am, one of the things that made me come to feel that the 100 per cent reserve system was not desirable was that under it the banks would have to go to the Bank of Canada for every dollar they wanted to loan out, over and above their reserves and capital. This would mean that the Bank of Canada then would have to really supervise every loan and every investment and would result, in effect, in socialization of the banking system which of course we avoid by the attitude you pointed out now.

Hon. Mr. ABBOTT: Well, I had never heard it suggested that operating under the present conditions the Bank of Canada would attempt to supervise the loans made by the commercial banks.

Mr. TUCKER: No, but under the 100 per cent reserve system unless the Bank of Canada undertook simply to rediscount every time the chartered banks asked for it to make a further loan, we would have to start supervising each loan submitted for rediscount in order to get money to make a further loan?

Hon. Mr. ABBOTT: I think we should define our terms. Respecting the 100 per cent reserve system as it is usually used they should hold reserves of 100 per cent against outstanding loans. Of course the main objection to that is it would be incurring expenses and paying interest on deposits and so on and so forth, and would not get any return on this loan.

Mr. STEWART (*Winnipeg North*): Is it the solicialist or Social Credit idea?

The CHAIRMAN: Gentlemen!

Mr. TUCKER: What I was getting at is that to me one of the great objections to it is once the banks loaned out their capital and reserves they would have to go to the Bank of Canada for further money to meet further loans and then the Bank of Canada would have to do the very thing that you say it does not do today—it does not have to supervise each loan or investment. Would you say that is correct?

Hon. Mr. ABBOTT: Well, I can hardly conceive of our banking system operating under those conditions, Mr. Tucker. The loans which would be made up to the extent of the capital and reserves would be pretty limited loans and if you had to hold 100 per cent reserves of cash or deposit with the Bank of Canada against every other loan you would have a banking system which, as I said a moment ago, would be operated at no cost to the borrower.

Mr. STEWART: Is this a socialist idea or a social credit idea?

The CHAIRMAN: That is not for the chairman to say.

Hon. Mr. ABBOTT: I hoped we would not have to engage in too long a discussion of the 100 per cent reserve. I have made speeches on it and I would be happy to send anybody a copy of them. I am against it, if that is what you are interested in, Mr. Tucker.

Mr. TUCKER: I wonder if Mr. Abbott would care to comment on the question of whether he feels that we should continue to pay from one-half to 1 per cent more on our government borrowings than the United States government pays?

Hon. Mr. ABBOTT: Well, that is a question on which I am perhaps not technically competent to express an opinion. I dare say that Mr. Towers discussed it. Traditionally interest rates in this country, as you know, have been somewhat higher than in the United States. There are no doubt a variety of reasons for that. Perhaps because it is felt that the risks in some cases may be somewhat higher. I do not know.

But in any event the traditional spread between our long-term governments and those in the United States has been about one-half of 1 per cent. Last year it was more than that but it is now narrowing quite rapidly.

Mr. TUCKER: There has I believe been great efficiency in the way our fiscal system has been managed, yielding surpluses as compared with what has been happening to the south. This was bound to have been reflected in the mind of investors in the feeling that if there was to be that difference in the interest yield then it would be better to invest in Canada than in the United States. Therefore there was a tendency for money to flow in here faster than necessary in the way of covering goods and labour that we need to import to retain our rate of development. In other words, I suggest that foreign capital is tending to flow in here faster than the actual need for physical equipment goods and services and that this is tending to raise the comparative value of our money and to put our primary producers at a great disadvantage. I suggest that when capital is tending to migrate into Canada so fast, it is not a good thing for our producers of all goods, and it is a sign that the rate of interest, comparatively speaking, is higher than it should be. Would you care to comment on that?

Hon. Mr. ABBOTT: Well, that is a very involved question. I do not mean your question, Mr. Tucker, but the whole question is a very involved one. As you know, interest rates moved rather rapidly last year especially in the United States as a result of a rather sudden change in the monetary policy of the federal reserve authorities and we have—and when I say we, I mean the government's fiscal agents, the Bank of Canada—have been endeavouring to adjust our position as smoothly as possible to the rather rapidly changing situation in the United States. But as you will appreciate, with a very large public funded debt which is between \$14 billion to \$15 billion, in a wide variety of maturities, management of the public debt is a very important and a very complex feature of monetary policy. As a result of the change in direction in the United States, we have been adjusting our own position fairly smoothly and fairly expeditiously to that change. As to the traditional difference in interest rates between the United States and ourselves, that is something which is really determined by the market and I am, personally, as you know, a believer in the operation of the price system.

Mr. TUCKER: I suggest that there is no justification for the import of capital when we have got the Bank of Canada and the system we have, fully able to provide the necessary credit for development, up to the point at which you need to import actual machinery and assistance, that is labour and so on to

keep your development going as fast as it is possible to keep it going. In other words, if we let Americans come in here and invest money, unless they are sending in actual machinery and equipment and skilled technicians and so on along with it, we are letting them get an interest in our natural resources which is quite unnecessary when we have a banking system which can provide the necessary credit without having capital come in on which we have to pay interest indefinitely. And I suggest that the fact that our money has been brought from a discount of about 91 cents on the dollar in terms of American money to over \$1.02 in the period of four years indicates that money has been flowing in faster than the goods have been following it and that it would therefore appear we are unnecessarily giving to the United States investor an interest in our natural resources.

Hon. Mr. ABBOTT: Well, on that Mr. Tucker, I am sure you would be the first to agree that the capital we are investing now represents the genuine savings either of Canadian or of some other country. By and large since the end of the war we have largely financed our very rapid expansion out of our own savings; and if you include in that the amount we have invested abroad either through loans to Britain or to other countries and so on, you will agree that we could not have expanded a number of our more primary industries such as the oil industry and some others without the in-flow of capital from abroad. I believe in the free flow of capital and its flow backwards and forwards between this and any other country. And I believe in a free economy. The United States was built up by foreign capital which flowed in there from other countries and as long as it is going into production of things we are producing now, it will have great value. Moreover, the foreign capital that came into Canada in the early days helped to develop Canada and it made possible the development of many of our early enterprises, such as our railways and so on. That was made possible by money coming in from abroad, and I think the development would have been very much less rapid if we had not been willing to allow a free flow of capital into Canada. I would be reluctant to suggest that a restriction be put on the free flow of capital. I think that in a good many cases the flow of capital brings with it not only the machinery but the technique and the technicians, and that it has proved very valuable.

Mr. TUCKER: I agree to the extent that it is a very good thing for the country and that it is well worthwhile to pay the interest involved where actual foreign goods are necessary for our development, but what I have in mind is this: I agree with what you say about the free flow of capital and so on, but I have in mind this: That if government bonds, or if the interest payable on them is relatively 1 per cent higher than the government bonds in the United States, then there is a tendency for the American investor to try to buy Canadian government bonds because of the better interest rate than his bonds, and with a higher rate of 1 per cent, then the investor will get proportionately a higher rate over the ordinary investment in the United States and that interest yield, becoming out of line, causes capital to flow—not real capital of skills and goods and services—but capital that is always seeking interest-return only—and causes it to tend to flow into Canada; and when it flows in without the goods following it, it then creates a situation where our money rises to a premium and then, as a result, the actual producers of the country, the people who produce the base metals and the grain and everything which is exported, are penalized very heavily when they sell their goods abroad. I know that is considered, but I wish to bring it forward and emphasize that we have had a movement of more than 10 points in four years in the value of our money as compared with American money and I suggest it is due in part to the relatively higher yield on our bonds as compared with American bonds. We might do well to consider revising the interest rates which we are paying.

Hon. Mr. ABBOTT: Well, answering first things first, I think it is true that a good deal of the in-flow, perhaps quite a substantial amount of the in-flow of capital has been for portfolio investment, but by far the greater part has been for investment in bricks and mortar. That is the information I have been given by my departmental officials.

As to the interest rates on Canadian government securities, there are of course some actions which the monetary authorities can take which will help iron out the sharp swings in the interest rates but it is not possible, in a free economy, for the Bank of Canada or the government of Canada permanently or definitely to fix the rate of interest which it will pay on its securities unless our people are willing to subject themselves to an immensely greater measure of control than I am inclined to think the majority of them would be willing to permit.

I do not know whether that deals with the point you have in mind, Mr. Tucker, but I think some of the difficulty, some of the in-flow of speculative capital over the past year or so has been due to this change in policy to which I made reference, in the United States, and it has taken us a little time to catch up. That expresses it somewhat loosely. But I think it is unrealistic to expect that the yield of long-term governments in Canada, which determines other interest yields, will be identical with those in the United States.

Mr. TUCKER: I have just one other point; there is some thought that on account of the tremendous expansion in loans to finance the development of the country which of course is desirable, the profits of the banks—without their capital having had to be increased—their profits have gone up tremendously. They are really using the cash reserves provided by the government central bank with which to make these loans and investments and without having to put more money of their own into the situation. Their yields are increasing as their loans and investments increase. I realize there are two answers to that. As I understand it, one is taxation and the question arises whether the same rate of taxation is adequate when the government is providing the basis or means whereby they make those profits tremendously increase. I understood that during the war a careful watch was maintained on the profits of banks, and if it were thought that as a result of there being profits with this means of expanding their business, that they were making profits larger than was reasonable, they were then invited to provide short-term money at roughly the cost of printing that money to the government. In this way the government used the present system to finance, as far as reasonable at the bare cost of administering the system. In this way interest-free money was obtained by the government, and the country also got the benefit of providing the central banking system with ample reserves and not the private banks. I understand that was done during the war. With a policy like that, when we have the banks benefiting by the Bank of Canada, should we not give them a chance of showing their appreciation of the system which is provided for them whereby they are given a chance to do that?

Hon. Mr. ABBOTT: I am not familiar with what took place during the war although, of course, I was here. But the banks, just as other corporations, were subject to the excess profits tax, and I understand that they did make some short-term loans on a special type of security at the cost of servicing the loan. I had no responsibility in either suggesting or implementing it; but I have no quarrel with it being done. And today, in what we like to think of as peacetime conditions, I see no reason why any person in this country, whether it be a bank or anybody else, should be required to provide services at cost or less than cost. I think they should provide them at a reasonable rate and I think that any profits which they make should be suitably taxed. That I think would be my answer to your question.

Mr. TUCKER: If the end result of this system is a financial set-up whereby the banks can tremendously expand their loans and investments and earn a tremendously increased profit without any more of their own money being invested in the system, then it is a question as to whether the maximum rate of interest should be reduced, so that as the volume of loans and investments increases the rate should decrease proportionately. To what extent has a study been made as to whether there should be a reduction in the maximum rate of interest of 6 per cent?

Hon. Mr. ABBOTT: I have not given any thought to it personally, but I would not be in favour, and I am not sure you would be in favour of the government fixing the interest rate on loans made by individual banks. I think that is something the banks must determine for themselves, as to whether 6 per cent maximum will be permitted or should be lowered from 6 per cent to some other figure. I think it would be undesirable because in certain types of business, notably the small loan business in which some of the banks engage, it would be completely unrealistic in asking the banks to make loans at any lower rate because they could not service them and provide for normal losses at anything like that rate. I am told that it must be quite appreciably higher and I accept that statement. So I think that the rate which is now established as the maximum legal rate is an appropriate rate and I would hope that the normal forces of competition would enable the rates below that to be determined on an economic basis in accordance with the credit-worthiness of the borrower, the cost of doing business, and all the rest of it.

The CHAIRMAN: Now, Mr. Low.

Mr. Low: Before we get too far away from this matter of the free flow of capital between countries, may I ask you just two or three questions? You may not be able to give me the exact figures, but approximations I think would be all right for our purpose. What is the amount, the aggregate amount of foreign investments in Canada today?

Hon. Mr. ABBOTT: American investment in Canada is a little over \$8 billion.

Mr. Low: A little over \$8 billion and the average yearly earnings on this investment would be in the nature of 5 per cent, let us say?

Hon. Mr. ABBOTT: The figure that we have in our balance of payments statistics on the amount of remittances made abroad, does not include the earnings made in Canada and reinvested here, so it might be difficult to say; perhaps it would be something under 5 per cent. However, that would be just an estimate.

Mr. Low: Probably 5 per cent would hit it nearly correctly. At that rate then, there would be a potential demand on Canada to meet those earnings, those yearly earnings of something between 320 and probably \$400 million a year.

Hon. Mr. ABBOTT: That would be the gross.

Mr. Low: Those earnings will be paid in Canadian dollars. There is nothing in—

Hon. Mr. ABBOTT: And they are fully convertible, of course.

Mr. Low: They are fully convertible at the moment, yes.

Hon. Mr. ABBOTT: With no prospect of that condition being changed in the near future, I hope.

Mr. Low: Eventually those earnings may become a claim on Canadian production.

Hon. Mr. ABBOTT: They are claims on Canadian production now.

Mr. Low: Let us suppose now for instance that the United States remains rather obdurate in the matter of liberalizing trade arrangements and the

situation arose where our production would not be accepted in the United States as freely as it is today. Then what might happen to your foreign exchange control fund or your foreign exchange fund? For example, one day perhaps the amount of investment from the United States in Canada is going to taper off and probably will sooner or later, and when it does, then we have not got that offsetting income amount, and the United States takes the position that they cannot take anymore Canadian oats, or barley, and puts up an embargo. Therefore that would make it difficult for the investors in the United States in Canadian industry to get their earnings out of Canada except by making demands on your foreign exchange fund and it would not take very many years to deplete your fund at the rate of \$400 million a year.

Hon. Mr. ABBOTT: So far as the Canadian position vis-a-vis the United States or anybody else is concerned the important figure to bear in mind is our over-all surplus or deficit position. We have traditionally run a deficit on current account on commercial operations with the United States but we have run a surplus with other countries and we have used that surplus to make up our deficit with the United States. On one or two occasions, we have been almost in balance in our trade with the United States; that was the case three years ago.

Mr. Low: Yes.

Hon. Mr. ABBOTT: If our over-all current account position was this: that we were importing either in goods or services substantially more than we were exporting, we would have to settle that either in gold or in convertible exchange.

Now, under today's conditions with no exchange control and with a free market in the purchase and sale of Canadian dollars, we would allow Canadian importers who wished to settle their bills in the United States to go out and buy United States dollars in the exchange market and they would always be available at a price. The price might be high under some circumstances, but I think it is fair to say that they would always be available at a price. In other words, we might, in those conditions, let us say, have a very high depreciation in the value of the Canadian dollar vis-a-vis the American dollar. We pursued as you know a system of fixed exchange rates for many years beginning with the war down to October, 1950 and we are all familiar with some of the problems which arose during that period.

Mr. Low: What I am trying to get at is this: Do you not think that circumstances might arise which would make it dangerous to Canada and its interests to allow a continuation of the free flow of investment capital?

Hon. Mr. ABBOTT: I suppose everything is possible but I would prefer to cross that bridge when I came to it.

Mr. Low: What about 1947?

Hon. Mr. ABBOTT: In 1947 our difficulties were not due to our own shortcomings. Actually that year we had an over-all current account surplus; but in 1947 we were shipping goods abroad and not taking payment for them. We were shipping them on credit and paying cash for our imports; and we had to impose very drastic measures in the way of import quotas and creating a very highly protected position behind those import quotas which I think was most undesirable. But I am not quarrelling with the decision to extend this assistance to our allies and friends at that time. However, it involved the Canadian people in some very strenuous measures of self-discipline which, as the man who had to put them on, I found some difficulty to explain.

The CHAIRMAN: You should not have asked that question, Mr. Low.

Mr. Low: I think it was perfectly all right. Our major problem was to preserve our very short supply of American dollars at the time.

Hon. Mr. ABBOTT: Our exchange reserves were at a very low level and we operated on a fixed exchange rate at that time. It was a policy of having to meet the situation very definitely.

Mr. HELLYER: I wonder if we might have a figure showing the gross total of Canadian investment abroad?

Hon. Mr. ABBOTT: It is close to \$4 billions excluding our exchange reserves.

Mr. Low: I do not want to proceed further with that particular matter but it may be that others would like to follow it.

The CHAIRMAN: No. He is your witness, Mr. Low. You go ahead and ask him any questions you like.

Mr. Low: I want to take some other line, and I thought that someone might want to follow this line, possibly.

The CHAIRMAN: I take the responsibility for that.

Mr. Low: This morning you mentioned something that was quite interesting to me. I think you said—not perhaps in these words, but words which perhaps you could check yourself—that in the banking system in Canada today, the central bank is the big feature, and it is superior to what it would have been under the Finance Act of 1914 to 1923.

Hon. Mr. ABBOTT: That is my personal opinion.

Mr. Low: That was about what you said?

Hon. Mr. ABBOTT: I am afraid that "John" would not agree with you.

Mr. Low: It is a question of getting some information on the record in connection with it and to get at the truth of it. I was reading the memorandum on this thing by Sir Thomas White at page 85 of the Royal Commission, the MacMillan Commission in 1933 to 1934, in which Sir Thomas, who had been quite an illustrious Minister of Finance had this to say, after dealing with certain conditions:

In these conditions and having regard to the suspension of the gold standard in all the great nations of the world except the United States, the Finance Act instead of being an instrument promoting a policy of credit inflation served with the highest efficiency the purpose of providing in conjunction with the note issues of the banks adequate currency facilities for the financing of the rapidly mounting volume of Canadian agricultural, industrial and commercial production and trade.

I would like to draw attention to this sentence:

It is my belief that no central bank in the world during the war period functioned more smoothly or was capable of being utilized more promptly or with greater immediate effect in serving the purposes of national and business finance than the Canadian Finance Act of 1914.

The question I want to ask is this: is today's system capable of working as swiftly and as smoothly to offset the threat of a recession as was the Finance Act of 1914 to 1923 along, of course, with the government and the banking system as it was then?

Hon. Mr. ABBOTT: I think the answer to your question is in the affirmative. I have the greatest respect for Sir Thomas White's opinions and I have no quarrel with the statement that he made there; but I think that the central bank which we have today, the Bank of Canada, is a more up to date instrument than was the Finance Act of 1914. I think that the introduction of a central bank has been justified by events, and the position of our commercial banks has changed a good deal from what it was in 1935, or forty years ago. I think that every modern and important commercial country has a central bank.

Mr. Low: A lot of women wear crinoline petticoats today which they would not do unless someone had started doing it.

Hon. Mr. ABBOTT: In some countries the central bank is not given very much opportunity to function as its charter would intend.

Mr. Low: Yes. Mr. Towers in giving evidence before us, I think on April 23rd, mentioned what he thought his bank would be able to do if a situation similar to the 1935-1939 period should again occur in Canada, and I thought the crux of his whole explanation at that time was that they would be able to exhort the chartered banks to make more loans after providing them with ample cash reserves. That was the proposition he had to offer. Now, do you think that would be practicable in circumstances like 1935-1939?

Hon. Mr. ABBOTT: I have the greatest respect, as you know, Mr. Low, for Mr. Towers, because I have known him for a good many years—we went to university together—and if he said that I think I for one would pay quite a good deal of attention to that view. I, like Mr. Towers, have considerable faith in the powers of exhortation under certain circumstances!

Mr. CAMERON: Depending on the exhortees!

Hon. Mr. ABBOTT: Yes, depending on the exhortees and depending on the exhortor, too! I think a combination of exhortation and the exercise of the normal function of a central bank under such circumstances would be very helpful in those conditions.

Mr. Low: But the thing that impresses me is that we have here now considerable unemployment, surpluses of goods and supposedly some credit worthy borrowers, and Mr. Towers suggests that perhaps worthy borrowers could be induced to come into the banks and borrow from them to get the wheels moving faster perhaps and offset the threatened recession.

Hon. Mr. ABBOTT: I do not know what Mr. Towers said, but I would be surprised if he said that any credit worthy borrower was not able to get considerable cooperation today at his bank.

Mr. Low: That is not what he said.

Hon. Mr. ABBOTT: I see.

Mr. Low: He said he would exhort the chartered banks to make a greater volume of loans to credit worthy borrowers, but the point that rather sticks in my mind is how many credit worthy borrowers would there be if we have a surplus situation in the country—such a surplus situation that the borrowers could not already sell what they have produced. Would you not first of all have to find a market for the goods already there?

Hon. Mr. ABBOTT: I will agree with you in this respect—if that is what you want me to say—that the creation of easy credit is not the only answer to the problems of what we call a depression.

Mr. CAMERON: It is not any answer!

Mr. Low: In fact, as Mr. Cameron said, in certain circumstances it is not any answer.

Hon. Mr. ABBOTT: But, as we all realize, properly handled it is a very important element in the proper functioning of our economic system. I do not think a modern commercial system could operate very well without fairly extensive use of credit.

Mr. Low: Right you are; but it seems to me that the first thing we would have to seek is markets for the produce that would be cluttering up the system?

Hon. Mr. ABBOTT: That is right. If we cannot find anybody to eat our wheat we cannot sell the wheat and we cannot eat it all ourselves.

Mr. Low: Nor in those circumstances can we expect others to borrow money to raise more wheat. One of the things I am coming to is this: do you think under the present central banking arrangements it is possible to act quickly and smoothly to offset a threatened recession?

Hon. Mr. ABBOTT: I would think so in so far as central bank action and monetary policy are concerned, to see that the banks are in a suitable position to extend credit; we could act very promptly.

Mr. Low: They were able to act quickly in 1914 and 1923—is it possible to act with equal promptness under the present central banking arrangements? Our major problem is to create somehow an effective demand—do you feel we could act as quickly today as they did?

Hon. Mr. ABBOTT: I do not think the demand is necessarily created by the expansion of credit.

Mr. Low: I quite agree with that but in connection with the Finance Act of 1914 the government of Canada did create the demand or helped to create the demand by placing—was it not something like \$50 million of new money—into the hands of Great Britain in 1917 so Great Britain could buy Canadian goods?

Hon. Mr. ABBOTT: What happens in the time of recession—which is the word we use now—is that the banks usually have more cash on hand than they would like to have.

Mr. Low: I thoroughly agree, but is there not likely to be under our exhortation system of a central bank?

Hon. Mr. ABBOTT: Combined with other techniques.

The CHAIRMAN: On page 758 of the evidence of this committee Mr. Towers says that exhortation would not accomplish anything. He is the man who denies that approach.

Mr. CAMERON: He did not know of your skills, Mr. Chairman.

Mr. Low: I was just referring to it.

Hon. Mr. ABBOTT: I assumed Mr. Towers said exhortation had some virtue.

The CHAIRMAN: No, he said it did not.

Mr. Low: On page 758, in answer to a question posed by Mr. Macdonnell, this is what Mr. Towers said:

If the situation again came to resemble the 1935-1939 years, which, as one will recall, were years still of considerable unemployment, although business had recovered a fair amount from the 1931-1932 time, the central bank would, I am sure, see to it that the commercial banking system had very ample cash reserves. I should think it would then be probable that the banks would at least add to their holdings of securities of various kinds and in the process expand the amount of the causes in the country. It would be a situation in which those who wanted to borrow and had decent credit standing would be able to do so without any difficulty.

This is the part governing what you said, Mr. Chairman:

If, however, there were other features of the situation which meant that those who wanted to borrow were few in number, or for an average total which was not large, if there was in other words an unduly low level of capital development, exhortation would not accomplish anything. Under those circumstances, one would have to look to see what complementary action might be possible on the part of government to encourage an atmosphere of development and movement forward.

In other words, he is going to depend on exhortation for the first part of it, but not for the second part.

The CHAIRMAN: He did not say that; you should not read that into his answer. Mr. Towers was capable of speaking for himself, his words were so precise and meaningful that they left no room for misunderstanding. I do not think we have the right to read into his words something that is not there.

Hon. Mr. ABBOTT: I do not think Mr. Low is trying to do that, Mr. Chairman.

Mr. Low: I certainly would not want to.

The CHAIRMAN: You cannot interpret anything in that statement to mean that in one instance he was urging exhortation as a policy and in the other instance he was not.

Mr. Low: Shall we abandon the word "exhortation" for the moment?

Hon. Mr. ABBOTT: Yes, all right.

Mr. Low: We could use some other word—he would "advise" with the chartered banks in an effort to get them to expand their loans; that would be the monetary means that he refers to; I am sure he would agree with that?

Hon. Mr. ABBOTT: I would be surprised if Mr. Towers would suggest he would interfere with the internal management.

Mr. Low: I agree.

Hon. Mr. ABBOTT: As the committee knows from time to time the management of the central bank meets with the management of the chartered banks and they examine the general economic conditions of the country, the volume of credit and so on. It is quite obvious that at these frequent meetings the management of the Bank of Canada would express a view to the management of the commercial banks as to what they think would likely be an appropriate credit policy and that goes on all the time, but in the sense that the central bank would attempt to tell the commercial banks what loans they should make or how much they should lend—I would be surprised if that sort of thing had ever been attempted by the management of the central bank and I think it would be inappropriate.

Mr. Low: My only purpose in bringing this to your attention was that I felt from the evidence given and from sir Thomas White's minority report that it is the general feeling that there might be some undue delay perhaps in meeting threatened recession under present circumstances that very probably would not have been under the Finance Act of 1914?

Hon. Mr. ABBOTT: I would not think so, Mr. Low. Opinions in Canada have changed entirely about central banks in the last 20 odd years. This has taken place since the Macmillan Commission held its investigations and since the Bank of Canada was set up, and I think you would find very few people in Canada, and I am sure it applies to the commercial banks as well and anyone else, who would feel that a central bank is not a desirable thing to have.

The CHAIRMAN: Mr. Fraser.

Mr. FRASER (*Peterborough*): I have just a couple of questions following up what Mr. Tucker and Mr. Low had to say. Is there any relationship between the Canadian dollar at a discount or at a premium regarding the inflow of foreign capital in Canada?

Hon. Mr. ABBOTT: Well, I suppose that when the Canadian dollar is at a discount there is some incentive to foreign capital to come in here because it presumably will acquire Canadian assets at a lower price in terms of the foreign currency than it would otherwise acquire. It is unfortunate, of course, as others have often said, that our unit is called by the same name as the American unit. It is not any more the American unit than the Indian rupee

is, but it is called by the same name and our people of course are inclined to look at it—the average fellow—as being the same unit of currency. As a matter of fact, it is not. It is decimal currency and there the strict resemblance ends.

Mr. CAMERON: Would you not say the inflow of American capital has had the result of placing the Canadian dollar at a premium rather than the other way around?

Hon. Mr. ABBOTT: It is one of the results because it has increased the demand for Canadian dollars, but actually I suppose the American investor is getting less for his money in terms of his own money than if the Canadian dollar had been at a discount.

Mr. FRASER (*Peterborough*): But at the same time this includes employment in Canada with investments.

Hon. Mr. ABBOTT: Yes, of course that is true.

Mr. FRASER (*Peterborough*): I do not want to pursue that any further, but I might say to Mr. Tucker that if it were not for American capital my own city would be in a bad shape because American capital controls all the main industries there.

The CHAIRMAN: Save it, save it.

Mr. FRASER (*Peterborough*): Mention was made when we had a witness before us, regarding small loans and you mentioned small loans just a short time ago; and it was suggested that the banks be allowed to loan on chattels. Have you any comment to make on that?

Hon. Mr. ABBOTT: No. I have not any strong opinion on that. If the banks came forward as a unit and asked for such power, I think it should be looked at, but I have not given it any consideration myself.

Mr. FRASER (*Peterborough*): They have not come forward and asked for it?

Hon. Mr. ABBOTT: No.

Mr. FRASER (*Peterborough*): As to the inner reserves, in regard to the foreign banks, the banks from foreign countries—we have a few of them in here now—how are they treated, just the same as the inner reserves of Canadian banks? I mean, those that are old-established Canadian banks? How do you make sure that their inner reserves are retained in Canada?

Hon. Mr. ABBOTT: Their reserves are dealt with on exactly the same basis as anybody else's reserves; their assets must be assets which are eligible and which the inspector general of banks will certify are appropriate assets; and the determination of the inner reserves is made on the basis of the same formula.

Mr. FRASER (*Peterborough*): And you check to see that none of them go out of Canada?

Hon. Mr. ABBOTT: Perhaps the inspector general might care to answer that question.

Mr. ELDERKIN: If I understand your question, Mr. Fraser, it was as to the possibility of paying out of the inner reserves what is, in effect, dividends to a foreign bank?

Mr. FRASER (*Peterborough*): Yes, or any way in which they paid them whereby they get out of Canada.

The CHAIRMAN: Are they treated differently?

Mr. ELDERKIN: They are Canadian banks operating under Canadian charters and they operate the same as any other Canadian bank.

Mr. FRASER (*Peterborough*): But their parent office is in a foreign country.

Hon. Mr. ABBOTT: Not their parent office; their controlling shareholders.

Mr. ELDERKIN: They operate in exactly the same way, and the only method by which they could pay profits to their controlling shareholders would be by way of dividends on which they would first have to pay any taxes which were applicable before they could be paid out.

The CHAIRMAN: Now, Mr. Michener?

Mr. MICHENER: I was looking at one or two of the changes in the Bank of Canada Act.

The CHAIRMAN: Not in detail, Mr. Michener; just generally. Go ahead.

Mr. MICHENER: I thought this was the time to ask for the reason for those changes. In section 7 the qualifications for the governor and the deputy governor and the assistant deputy governor say that they must be British subjects resident in Canada. That is now changed to "Canadian citizen". That would exclude a good many British subjects already resident in Canada who have not become Canadian citizens. Is there any particular reason for that?

Hon. Mr. ABBOTT: No. It was thought that with a publicly-owned bank the senior officers should be Canadian citizens. I am rather glad you raised the point because there was a matter I wanted to touch upon which had to do with the Bank of Canada Act; and I might say that in discussing the matter with the Governor of the Bank of Canada he asked me to suggest to the committee that it might make an amendment in the section dealing with these officers of the bank. At the present time there is a governor and a deputy governor who are appointed by order in council on the recommendation of the board of directors of the bank and who are directors of the bank. There is also an assistant deputy governor who is not a member of the board and there are other officers such as the executive assistant to the governor. The management of the bank have suggested to me—and I think it is a reasonable suggestion—that there should be more than one deputy governor and that there should be, as provided now, a governor, a deputy governor, both of whom should be members of the board; and that there might be one or more officers of the bank who would be appointed as deputy governors but who would not be members of the board of directors of the bank: I think that would have some value for the purposes of internal management and in the external dealings of the officers of the bank with their opposite numbers in other countries; and if that should meet with the approval of the committee when considering the section, I would like to have such an amendment proposed.

Under the suggestion the present assistant deputy governor would become deputy governor, and there would be at least one other officer of the bank who would have that title.

Mr. Low: I think we should look at it.

Hon. Mr. ABBOTT: Yes. I simply raise it now to say that if it had been discussed a bit earlier we would have included it in the bill which is before the committee. It involves no extra expenditure. It is primarily a matter of internal management and I would be glad to give such explanations as are necessary—or the officers of the bank could do that, when we consider that section of the bill.

Now, when I am before the committee, as a general proposal I would like to make that suggestion and unless there are some strong adverse views now I would like to have an amendment of that sort put forward for discussion. It is a matter of internal management.

Mr. MICHENER: I will not pursue that question.

Hon. Mr. ABBOTT: I think that was the chairman's plan.

Mr. MICHENER: I wonder if Mr. Abbott would care to say anything about the present position of the government or about policy with respect to the use of gold coins of Canada?

Hon. Mr. ABBOTT: Well, I have stated that, I think, Mr. Michener in the House on a number of occasions.

Mr. MICHENER: Is there any change contemplated?

Hon. Mr. ABBOTT: No change. I have felt that the only purpose in minting such coins would be to facilitate internal hoarding and I have never felt that in the over-all interests of Canada that was desirable. It would also require that there be a fixed value of the gold content in the coins unless they were merely token coins of so many ounces; but in any case the government has not thought that to be desirable.

Mr. MACDONNELL: And that would include minting by weight.

Hon. Mr. ABBOTT: That is right. Our view is that the hoarding of gold should not be encouraged and that our gold should be available in our central reserves with which to settle our balances and enable us to continue to import the things which we want to import from other countries which will still take gold.

Mr. MICHENER: The Bank of Canada Act does permit the government to buy and sell gold coins.

Hon. Mr. ABBOTT: Yes.

Mr. MICHENER: But they are not allowed to do it?

Hon. Mr. ABBOTT: The Bank of Canada can, and to some extent does.

Mr. MICHENER: There is no gold value to our dollar; it has no gold value relatively, at the present time?

Hon. Mr. ABBOTT: At the moment; there is a clause in the Currency, Mint and Exchange Fund Act, but we do not attempt to specify the gold content in the Canadian dollar because we have not fixed any such rate.

Mr. MICHENER: Our Canadian dollar is not the same thing as the American dollar?

Hon. Mr. ABBOTT: It never has been.

Mr. MICHENER: When it was possible to define it in terms of gold, I think they were equivalent.

Hon. Mr. ABBOTT: They may have the same gold content, that is true.

Mr. MICHENER: But now neither has a gold content?

Hon. Mr. ABBOTT: The American dollar has.

Mr. MICHENER: Ours is not defined in terms of gold.

The CHAIRMAN: But ours is worth more.

Mr. CAMERON (*Namaimo*): Ours is defined in terms of the American dollar.

Hon. Mr. ABBOTT: No. Since October 1950 we have a floating rate.

Mr. MICHENER: There is nothing to prevent our dollar or there would be no adverse effect resulting from calling our dollar something different.

Hon. Mr. ABBOTT: No. Only the psychological effect that we have called it a dollar for so long that it is possible some people might not like to change.

Mr. MICHENER: I raise the question whether there was not some psychological advantage in having a different name for our currency because people might regard it as being the same thing when it is not.

Hon. Mr. ABBOTT: There is something to be said for that. A good many other countries call their currency dollars, however, such as the Straits Settlements and Hong Kong; and I think there are at least 10 or 20 pounds; Australia, New Zealand, the West Indies, and South Africa, just to name a few.

Mr. MICHENER: That is not looked upon as a problem to which consideration has been given?

Hon. Mr. ABBOTT: It is a problem which concerns my friend Mr. Butler more than it does me directly.

Mr. MICHENER: There are one or two questions on the balance sheet which perhaps Mr. Elderkin might answer.

The CHAIRMAN: Mr. Elderkin.

Mr. MICHENER: The first one is on the assets column.

The CHAIRMAN: What page?

Mr. MICHENER: Page 798, exhibit 10. I notice that the asset column total at a different figure from the liability column and I wondered what the explanation was.

Mr. ELDERKIN: Because in the form of return at that time there was no provision made to show the undivided profits account; the difference between the amount of assets and liabilities is the total of the undivided profits account of the banks at that period. Now, in the form in schedule M appearing in the draft bill you will find that there is a provision for that account and hereafter the two sides will balance.

Mr. MICHENER: So there will be an item in the liability side which will range over the last five years, from \$6 million to seventeen?

Mr. ELDERKIN: That is right, yes.

Mr. MICHENER: Then the other question is this: On the balance sheet how are the inner reserves taken care of as a matter of accounting in this balance sheet?

Mr. ELDERKIN: They are deducted from the assets; the assets are reduced by that amount.

Mr. MICHENER: So, if they were disclosed you would add the amount of the inner reserves to the assets column and you would have that much; it would disclose just that much assets which were indicated this morning to be between \$300 million and \$400 million?

Mr. ELDERKIN: The amount of total inner reserves?

Mr. MICHENER: Yes.

Mr. ELDERKIN: The permitted aggregate is about \$320 million.

Mr. MICHENER: If they were dealt with as a matter of open bookkeeping, what would be the result in the balance sheet?

Mr. ELDERKIN: Whatever amounts they were would be added to the assets side, and that would mean that the assets side would be increased, and if we followed the system in Great Britain they would appear on the liabilities side, by adding the amount to their outstanding accounts.

The CHAIRMAN: Mr. Weaver.

Mr. WEAVER: Mr. Chairman, most of my questions have already been answered and there is just one left. I was very glad to hear Mr. Abbott say in reply to one of Mr. Tucker's questions that he was in favour of the free-flow of capital and so on. I think that is correct but there was one word which he did not use. Would he include the word "goods" also?

Hon. Mr. ABBOTT: I intended to, and I thank you for bringing it to my attention.

Mr. WEAVER: That is all, Mr. Chairman.

The CHAIRMAN: Mr. Macdonnell. You are the last one.

Mr. MACDONNELL: That is quite a responsibility. Mr. Abbott, I have a legacy for you from your classmate, Mr. Towers.

Hon. Mr. ABBOTT: Good.

Mr. MACDONNELL: Because I asked him a question which he said he thought I should ask you. I asked him this: I said, "Mr. Towers, as things stand now, there is no limit of any kind on the power of the Bank of Canada in consultation with the Finance Department to increase the money of Canada, to the sky. The clause in the Bank Act fixing a gold reserve is virtually nullified in the Currency Mint and Exchange Act? (Incidentally the clause in the Bank Act should not be left as it is because it is misleading.) I asked Mr. Towers if he thought it was a good thing to leave the matter that way. I said in effect: supposing we had an irresponsible government—and I defined that—as follows: I do not mean a government that considers itself as responsible as this government does; I mean a government that we agree on as being irresponsible. Do you think it is a good thing that such a government with the bank at its elbow should be allowed to have truly unlimited powers, or do you think it would be wise possibly to have a point—and I admit it would be difficult to fix that point—at which there should be some hurdle or some check, some "stop, look and listen sign",—the only one I have been able to think of is the necessity of legislation. I said: At the present time there is no limit of any kind and he said, "the Governor of the bank might resign" and I said, "We do not want the governor of the bank to resign" and I asked him if he did not think there might come a point when the governor of the bank would be able to impose a check and bring about, in the case of unwillingness to cooperate, the necessity of some "stop, look and listen sign", so that the people of Canada might know before a further increase in their money was made effective, what the situation was. And I went on to add this one point. I said: "This is not a situation which could arise in a few minutes like the atom bomb; it is a situation which would be apparent as developing over weeks or perhaps months; and parliament can now be summoned in less than no time."

I wish I was able to tell you that there is a widespread feeling for this view, but unfortunately I cannot tell you that. However, there are some who think well of it and I should like very much to know your view because Mr. Towers—and quite justifiably, I think, when he got to a certain point in that conversation, said: "This is a question for the minister, it is a question of policy."

Hon. Mr. ABBOTT: I suppose, Mr. Macdonnell, what you are asking me to comment upon is whether there should be some definite limitations in the Bank of Canada Act or the Currency Act or both on the powers of the central bank with respect to the issue of currency; as I take it you are not suggesting we should now return to a full-fledged gold standard?

Mr. MACDONNELL: No, not at all.

Hon. Mr. ABBOTT: And your reason for making that suggestion is we might some day have an irresponsible government which would do things we would not like done. I can only answer you by saying that the issue of money, in the final analysis, is the responsibility of the government of the day whether it is an irresponsible government or not. There are some things which can only be cured by the ballot box and I do not think—I do not know—of any limitation which could be put in the Bank of Canada Act which, by law, would prevent an irresponsible government from doing irresponsible things with respect to the credit and currency of the country. I would prefer to allow the matter—and this is only my personal view—to remain as it is at the present time because I do not know of any better alternative.

Mr. MACDONNELL: But would you not agree that with our so-called irresponsible government it might be useful to have a situation arise where the public is put on notice? It has only happened once during my few years in the House, but there was a situation a couple of year ago—I do not know if

it was because the opposition shouted more loudly than usual—when the press did take the matter up and aroused public opinion. It was not a matter of much political appeal it had to do with tenders under the Public Works Act. I was interested because it was one case where the opposition felt it was having a little more effect than it usually does. But coming back, do you not think first of all that if a government knew that there had to be legislation—which would mean that there would be the publicity usually attendant on legislation and all that goes with that—that there would be cases where a government—and bearing mind I am talking about what I am calling an irresponsible government—might be held back or where public opinion might be aroused and where an effective check might be imposed?

Hon. Mr. ABBOTT: I suppose what you have in mind is that there should be some kind of limitation in the Act whereby the Bank of Canada would be precluded from buying short-term Canada obligations, except up to certain limits and so on. I agree with Mr. Towers; I must say if the Minister of Finance and thereby the government of the day suggested a policy which the central bank could not go along with I think the governor of the central bank should give the warning signal by resigning. I think it would be his duty to do it, but I do not believe it is either desirable, or feasible perhaps, to spell that out by legislation. That is really the only way I can answer your question.

Mr. MACDONNELL: In other words you say we have a managed currency and thats that?

Hon. Mr. ABBOTT: Of course we have.

Mr. MACDONNELL: That is correct, and you think there is no use in trying to limit it in any way—any way at all? I am not suggesting this or that method.

Hon. Mr. ABBOTT: I do not know of any way in which it could be properly or usefully limited by legislation, Mr. Macdonnell.

Mr. MACDONNELL: That is not my question.

Hon. Mr. ABBOTT: What other way do you suggest?

Mr. MACDONNELL: I do not think I am competent to suggest any specific way, but I am asking you the particular question, are you satisfied with the wide open situation where there is no limit of any kind on the power to increase the money supply?

Hon. Mr. ABBOTT: I know of no other way. Yes, I am satisfied with the present situation, Mr. Macdonnell. If the management of the central bank is unable to concur in government policy then the management should resign and there are some countries in which—and we do not need to mention them—it is quite obvious that whatever the central bank may want to do, it is being completely negated by government fiscal action.

Mr. MACDONNELL: I do not want to be like a puppy with a rag, but you know there are several countries—some reputable countries—which do have limitations just as there are others which do not?

Hon. Mr. ABBOTT: The United Kingdom has no limitations and the United States has none.

Mr. MACDONNELL: I do not think you are quite right in saying the United Kingdom has no limitations. Just a few weeks ago I read a statement from a publication—I have forgotten the name—but it mentioned the legislation recently passed there with regard to the limitation of the note issue. That is, of course, different.

Hon. Mr. ABBOTT: I know they do distinguish between the fiduciary issue and the other.

Mr. MACDONNELL: But it is not quite correct to say they have no limitation—I think they have.

Hon. Mr. ABBOTT: If that is the case, I accept that. That is on the note issue and only a portion of it.

Mr. CAMERON: Do you think the question Mr. Macdonnell is raising is really pertinent to an economy such as ours in which such a small proportion of transactions are accomplished by means of currency and that with regard to the extension of bank credit is there not in effect an actual limitation to it, and that is the level of economic activity, at any given period?

Hon. Mr. ABBOTT: Yes, I do not quarrel with that statement, Mr. Cameron. Under the statute, the Bank of Canada is given a statutory responsibility for exercising some control over that volume of credit.

Mr. CAMERON: And is it not true to say that even if Mr. Graham Towers and his associates went slightly mad in the Bank of Canada and started turning out currency they would have no means of infusing it into the economy beyond a very limited amount?

Hon. Mr. ABBOTT: That is right, although I do not think Mr. Macdonnell was so concerned about Mr. Graham Towers and his associates going mad—he was more concerned about us.

Mr. CAMERON: He was more concerned about a madman in your position making Mr. Towers do it?

Hon. Mr. ABBOTT: Right!

Mr. MACDONNELL: We have people sitting here whom we respect and like, and who have the same kind of minds we have, but who take a very different view of monetary policy, and I would think that under our present situation if they ever came into power it would be most useful to them—absolutely wide open power.

Hon. Mr. ABBOTT: I tried to make it clear that the whole thing rests with the electors. I do not think we can protect our descendants from their own follies.

Mr. MACDONNELL: I do not go as far as you in regarding the action of the electors as folly, but I do suggest—and I am sorry to see you adopting the attitude you do—you talk about control by electors who elect a parliament every four or five years—over an action which can be taken instantaneously.

The CHAIRMAN: On Thursday we are having “farmer’s days”. The agricultural representatives will appear in both the morning and afternoon sittings.

APPENDIX "A"

(Being a Brief submitted by the Canadian Feed Manufacturers
National Council)

THE BANK ACT

FARM IMPROVEMENT LOANS ACT

SIRS: Since the Bank Act was revised in 1944, there has been a tremendous growth of our agricultural and industrial output. Naturally this has resulted in changes in our economic status.

The very impressive expansion of the agricultural industry is drawn to your attention in the following data from the Bureau of Statistics.

Value of Farm Capital

1944	\$5,568,207,000
1951	9,470,876,000

(Includes value of lands, buildings, live stock, implements and machinery.)

Gross Value of Agricultural Production

1944	\$1,918,647,000
1952	3,325,821,000

Gross Value from Live Stock and Poultry

	1944	1952
Cattle and Calves	\$252,524,000	\$466,214,000
Dairy Products	312,272,000	443,438,000
Hogs	285,996,000	353,231,000
Poultry and Eggs	181,011,000	265,111,000

That various branches of farming have become highly specialized and have expanded with the increased consumption of our growing population, is generally well known. This specialization and growth has long since made it necessary for farmers to supplement by a considerable percentage their pasture hay and grain crops. In fact, farmers who keep records, are finding that for the labour equipment and overhead it is more economical to purchase balanced rations than grow their own feed. Neither can the farmer (poultry men, turkey men, broiler raisers, hog and dairymen) compete successfully, if he depended solely on home raised crops. He must purchase feed and in a great many cases the feed must be financed.

Specialization on larger units has taken place particularly in poultry, turkey and broiler raising. Experienced operators have found it profitable by employing equipment and buildings to capacity full time and on sufficiently large scale to employ labour and labour saving devices to capacity.

These feeders do not have day by day cash income from their sales. A turkey raiser must buy his poults, provide for his equipment, feed, labour, etc., but he also must wait six months for marketing and his pay off.

A poultryman specializing in broilers has 12 weeks of expense before he can collect from his sales. General poultry men have a more regular income but even so there is an average of a 26-week span between the baby chick and laying pullet.

These specialized feeders need feed loans just as much as other farmers need crop loans. From the experience of some of our members they are much safer loans.

It seems evident that recognition of the fact that a percentage of these farmers need an intermediary type of borrowing, has been neglected.

The expansion of the Feed Industry will be noted by the following comparisons:

1944—Production of Commercial Feeds 1,160,358 tons valued at plant \$57,219,913.

1951—Production of Commercial Feeds 1,877,643 tons valued at plant \$159,646,936.

The chartered banks of Canada with trained personnel and operating in rural communities are closer to the pulse of individual farmer needs and therefore should be qualified to provide the source of monies needed under present economic conditions. The lack of elasticity in the "Bank Act", as presently constituted, makes it increasingly impossible for a farmer to capitalize on local conditions, owing to his inability to obtain short-term bank funds and his program is necessarily deterred due to his reluctance to pay high costs to obtain short-term monies on a Land Mortgage basis.

It may be argued that the Farm Improvement Loans Act provides all the needs that may be encountered as far as farmers are concerned and while this type of service has played a prominent and important part in agricultural life, it is obvious that it is insufficient to meet the complex economic conditions developing today. Only an expansion or broadening of the Bank Act will provide continuity of the services established under the Farm Improvement Loans scheme.

The introduction of the Farm Improvement Loans Act has provided an avenue to funds directly beneficial to an expanding and mechanized type of farming but in view of the fact that we are entering a period of consolidation, governed by the domestic market, the Farm Improvement Loans Act will have much less importance and other banking features should be provided to ensure adequate services. It is our understanding that Farm Improvement Loans Act was intended to expand the provisions originally designed under section 88, but from our experience the various restrictions under this Act do not enable the natural progress of farming.

Under the Farm Improvement Loans Act the regulations covering loans for the purpose of financing the purchase of livestock (including poultry as amended in 1947) is limited to:

Section 5 (B) for the purpose of financing the purchase of livestock, if:

- (1.) the loan is made to the owner or tenant of the farm
- (2.) the loan is made mainly for the purchase of foundation or breeding stock
- (5.) security is taken under Section 88 of the Bank Act on the live stock purchased, including the natural increase, or an all live stock owned or to be owned by the borrower, at the time the loan is made or pursuant to a written promise or agreement of the farmer to give such security.

There is no provision under Section 88 to accept poultry as collateral security and under the Farm Improvement Loans Act there is no provision to make loans to feed the livestock including poultry, turkey, broilers, etc.

Since "foundation or breeding stock" is naturally purchased for profit from the increase and since that increase has been accelerated by the advances in the science of nutrition and because former hazards have been so vastly and surely reduced by research and control measures, we respectfully submit and request that due consideration be given to

- (1) Revision of the Bank Act to include poultry of all classes to be taken as collateral security.
- (2) That provision for loans for feed be made under the Farm Improvement Loans Act regulations.—

Respectfully submitted,

(Signed) W. N. HENDRICK,
General Secretary,

CANADIAN FEED MANUFACTURERS NATIONAL COUNCIL,
287 MacPherson Avenue,
Toronto 7, Ontario.

APPENDIX "B"

(Being a Brief submitted by The Ontario Retail Feed Dealers Association)

MEMORANDUM RE AMENDMENTS TO THE CANADA BANK ACT

Directed to: Mr. David CROLL, M.P.,
Chairman of the Banking Committee,
House of Commons.

Presented by: The Ontario Retail Feed Dealers Association—a Provincial wide organization of some three hundred and sixty members, representative of the retail feed industry of Ontario.

The growth and development of our vast agricultural industry during the past decade, has played a very important role in the solidification of our enviable national economy. During and since the second world war our producers of basic foodstuffs improved their methods, expanded their operations and equipped themselves for maximum production with a minimum requirement of man labour. Much of this expansion and modernization has been made possible through the financial assistance provided by way of the Farm

Loan Improvement Act.

The provisions of this Act have contributed immensely to the welfare of our agriculturists in many respects but we are of the opinion that limitations thereof restrict the benefits to certain aspects of farm production. The purchase of mechanical equipment, foundation stock and the improvement of farm buildings are operations well provided for under the aforementioned Act. Necessary as these provisions are, it is our considered opinion that the limitation presently in effect seriously restrict the benefits which might be afforded to the industry.

Any recommendations which may be advanced in the manner of this brief must in nowise be considered as criticism of our Canadian Bank Act. At the most recent revision of the Bank Act in the year 1944, amendments then effected took existing conditions into good account and paved the way for a decade of unprecedented prosperity.

With the passing of time and the introduction of more modern and efficient methods, many farm operation have become specialized in nature and broader in extent. As a result of this transformation, new methods of financing are required. As an illustration, your attention is drawn to present day operations within the poultry industry as compared to those formerly in effect.

Within easy memory, poultry raising was considered as a sideline to the more intense farming operation and because of its degree of importance in the overall operation, represented a relatively small investment and as such offered limited security. While it must be admitted that this type of farm practice still exists, a completely revolutionary trend has developed which outmodes loaning privileges as presently provided under the terms and conditions of our existing Bank Act. In order to successfully compete in the production of a highly competitive product, the poultry man has been obliged to specialize and enlarge his operation to the point where his success depends upon a volume turnover and a low per item profit. While this condition would apply in every aspect of poultry production it is clearly exemplified in the

raising of turkeys and the production of broilers. In addition to the initial investment which is represented by buildings and equipment, large expenditures are necessary within short periods for the feed required to bring the birds to marketing age and weight. It is thus essential that some provisions be made whereby such producers would become eligible for short term loans to finance operations until marketing of the product could take place.

It has been mentioned that the diverse nature of farm production in past years may have weakened the case for short term loans on individual operations. In consideration of the established trend toward specialized production, it is our opinion that the provisions of Section 88 of the Canada Bank Act could safely be extended to provide capital for feed and other legitimate expenses incurred in connection with such production. To effect the condition which we believe is amply warranted by reasons aforementioned, the following specific recommendations are respectfully presented for your consideration:

1. That an extension be written into the Bank Act whereby poultry (including turkeys) would qualify for collateral security.
2. That present limitations of the Farm Loans Improvement Act be lifted to provide for loans for feed.

Should any doubt exist that financing of this nature is required, may we draw your attention to the tremendous amount of financing done by the retail feed dealers of this Province, whose interests we have the honour to represent. This is neither a natural, profitable or solicited function of a retail feed dealer. While the banker and the retail feed dealer work constantly and harmoniously together, there should be no confusion or overlapping in their separate activities. The function of the feed dealer is to provide his customers with the greatest value for a dollar spent on feed, and it is our contention that the financing of such should be a normal function of our banking system. Without any doubt a huge volume of capital is being advanced by the retail feed dealers of this Province in the form of feed accounts. With the adequate facilities provided through amendment to the Bank Act as recommended in this brief, a great percentage of this financing would be placed within its proper channel—namely a short term Bank Loan.

Respectfully yours,

Ontario Retail Feed Dealers Association,

MURRAY McPHAIL,
Secretary.

MHM/JH

DATED: February 17, 1954.

APPENDIX "C"

(Being a Brief submitted by The Poultry Industry Committee of Ontario)

The Poultry Industry Committee of Ontario is made up of representatives from: Ontario Approved Hatcheries Assn; Ontario Poultry Breeders Assn; Canadian Baby Chick Assn; Ontario Turkey Assn; Ontario Broiler Growers Assn; Ontario Poultry Producers Assn; Canadian Feed Manufacturers Assn; Ontario Retail Feed Dealers Assn; Western Ontario Produce Assn; Eastern Ontario Egg and Poultry Assn; Retail Merchants Assn. of Canada; Produce Branch, Toronto Board of Trade; Ontario Veterinary Assn; Ontario Veterinary College; Ontario Agricultural College; Ontario Poultry Breeding Policy; Department of Animal Nutrition, Ontario; The following branches of Canada Department of Agriculture—Poultry Production and Marketing Services, Dominion Experimental Farm, Animal Diseases and Research Laboratory & Institute.

Brief to the Parliamentary Banking Committee

Purpose:

The purpose of this brief is to request that the production of poultry products in Canada be recognized as a well established and stable branch of the agricultural industry: that as such it be given the recognition to which it is entitled and be included under Section 88 of the Bank Act for purposes of securing bank loans in its business activities.

Review of the Bank Act in Relation to the Poultry Industry:

The last revision of the Bank Act occurred in 1944. At that time no change was made in Section 88 as it might affect this phase of the agricultural industry. This same situation was true of the previous revision occurring in 1934. A lapse, therefore, of twenty years has occurred during which no recognition has been given to a development of one of the most important and rapidly advancing fields of farm livestock production. Within the aforementioned twenty years science has made outstanding contributions toward improving the efficiency of poultry production. The poultry industry today, leads all other means of converting raw material into animal food products in the degree of efficient and economical production.

The Poultry Industry of 1954:

Twenty years ago, the major source of supply of eggs was the farm flocks throughout Canada. The development of specialization was on its way but was not highly significant. Since that time specialization has steadily increased and the industry depends now for its major production on larger commercial units where the operators make this their main occupation. Modern operations for production represent heavy investment in plant and equipment exceeding in investment in a large number of cases, the value of the whole farm set-up of the typical 100 acre mixed farm where the small flocks of poultry formerly were kept.

The following figures obtained from the D.B.S. Reference Paper Handbook of Agr. Statistics, Part II, illustrate in some measure the growth of the Canadian Poultry industry.

Farm Cash Income from Sale of Eggs and Poultry

Year	Eggs	Poultry	Total Canada	Ontario and Quebec
1933	\$ 19,990,000	\$ 18,681,000	\$ 38,671,000	\$ 24,165,000
1952 (Prelim) ..	104,957,000	115,874,000	220,821,000	143,679,000

The above figures, though most convincing in themselves, in showing the tremendous increase in the production value of the industry, do not fully tell the story of development of this fast growing industry. It will be noted that development has kept pace with population concentrations as the comparative figures for Quebec and Ontario show. Naturally, these two provinces have shown the most progressive advances and as a general statement, may be said to lead in the trend toward a high degree of specialization and stabilization in poultry production.

To illustrate the development of efficiency in egg production that has occurred within the past two decades the following figures are of interest:

**Average Egg Production per Hen per Year*

Year	Eggs Produced
1933	107
1952	180

**Source: D.B.S. Agr. Division*

The per capita consumption apparent from D.B.S. calculations meanwhile has remained fairly constant. The figures for 1933 as given are 22·8 dozen while for 1952 the figure is 22·7 dozen.

Considering the figures supplied for the Average Number of Layers Kept on Farms:

1933	24,922,000
1952	22,236,000

it may readily be seen where the great advancement in efficiency of production has occurred, resulting from improved breeding, feeding and general management. This has come about through the trend toward specialization and the industry coming more into the hands of expert operators. It might well be mentioned also that the quality of eggs reaching the consumer's table has steadily shown improvement.

The Newer Concept of Poultry Meat Production

Egg production within the poultry industry is recognized as a basic factor. The production of poultry meat has always held a place of importance but it might be said that twenty years ago poultry meat was more of a by-product. Today this is not the case. The production of poultry meat has become in itself a highly specialized business and of ranking importance in value to that of egg production.

Today, poultry meat production is carried on as the most efficient method of converting raw material into a highly acceptable form of meat for human consumption. As a result of research and its application in the production of poultry rations, together with the development of meat strains of chicken and modern perfection of management, chicken meat is produced on a conversion basis as low as 2½ lbs. of feed per lb. of meat.

Modern merchandising methods have brought to the consumer a product which has been most favourably accepted and as a consequence the consumption of poultry meat has come to occupy a most important place in the human dietary. It is consumed daily and the year round in vast quantities and consumption tends to increase year by year.

The following figures representing Apparent Domestic Disappearance indicate this trend.

Year	Production	Imports	Exports	Disappearance Total	Canada per Capita lbs.
1933	154,627,000 lbs.	—	1,352,000	149,536,000	14·0
1952	405,398,000 "	4,140,000	4,902,000	416,094,000	29·6

Here again, the figures do not adequately give the story but it is recognized that this phase of the business is firmly entrenched. Moreover, it is in a preferred position to maintain its growth and expansion because of its highly developed competitive position. Consumer acceptance of the products as offered today is at a high and increasing level. In the U.S. the per capita consumption of poultry has reached 35 lbs.

*Why the Specialized Producer of Poultry Products Requires Access to
Bank Loans*

The production of either eggs or poultry meat becomes the production of a crop which requires time to produce. In the case of the producer of eggs, six months is required to grow pullets before they come into profitable production. The costs involved in baby chicks, equipment, feed and labour during this period are substantial and for any sizeable operation put a real strain on an operator's working capital. Once production starts his returns are worthwhile and revenue comes to him steadily during the laying season. At the end of the laying year the hens represent a readily marketable product.

In poultry meat production the need for current working capital is even more critical. Most operators have tied up the greatest part of their funds in the investment in plant and equipment which is both expensive and extensive in large scale operations. The purchase of chicks or poult requires a substantial cash outlay. The operators income is not constant but must come at the completion of a crop. This may vary from the commencement for a period of from three months to seven months. The feed requirements are on an increasing scale as the birds mature and very few operators are in a position to provide their own working capital to meet their feed bills as well as other current expenses.

Producers of light weight chickens (So called Broilers) plan on producing a crop within about 12 weeks. In order to attain profitable production in the efficient utilization of labour flocks up to 1,000 birds are commonly raised. The feed bill for such a flock might be in the vicinity of \$5,000.00.

The production of turkeys represents a big factor in meat production. Here again the specialized producer may raise flocks of from one thousand to several thousands of birds. Flocks of five thousand are not uncommon. This man must wait from six to eight months for his returns. The feed bill for a flock of 5,000 birds may run close to \$18,000, and such an operator cannot be expected to finance his own undertaking.

Banks have long found it desirable and profitable business to finance farmers to produce certain crops, to feed cattle and hogs, to make farm improvements and to buy implements. Why, therefore, is it not just as good business for them to finance the production of a crop of poultry meat? Supplies sources have been forced into financing poultry producers. The experience in Canada has, for the most part, been good. For example in the feed industry the record of individual firms only is known but here the ratio of loss has been

only a fraction of one per cent. It must be admitted that supplies sources are not specialists in making loans and with the training experience of bankers, no doubt the record would be improved. There is a definite place for the banks to operate in this field and the poultry industry justifies inclusion within the Bank Act to enable the performance of this function.

Conclusion

From the foregoing statements and facts it is believed that a sound case has been made for the inclusion of poultry products production within the terms of Section 88 of the Bank Act. This brief is presented by the Poultry Industry Committee of Ontario, which represents the poultry industry of the province in its entirety. In each province where organized poultry producers exist, this question has been discussed over and over again and the members are most concerned that the discrimination which has existed against them be rectified.

POULTRY INDUSTRY COMMITTEE OF ONTARIO.

March 2, 1954

H. B. Donovan Jr., Chairman.

Secretary—C.F. Luckham, St. Williams, Ontario.

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Canada. Banking and Commerce
Standing Committee on, 1954

HOUSE OF COMMONS

First Session—Twenty-second Parliament, 1954

AL 7213
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STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: DAVID A. CROLL, *Esq.*

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 26

Decennial Revision of the Bank Act

THURSDAY, MAY 6, 1954

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WITNESSES:

Mr. Olaf Turnbull, a member of the Interprovincial Farm Union Council;
Mr. M. M. Robinson, Secretary-Treasurer, and Mr. Hughes Cleaver,
Counsel, of the Ontario Fruit and Vegetable Growers' Association.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1954.

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ORDER OF REFERENCE

THURSDAY, May 6, 1954.

Ordered, that the name of Mr. Anderson be substituted for that of Mr. Bennett on the said Committee.

Attest.

LEON J. RAYMOND,
Clerk of the House.

NOTICE OF MOTION

TUESDAY, April 6, 1954.

Mr. Macnaughton—On the Clause by Clause consideration of Bill No. 338, An Act respecting Banks and Banking—That Clause 21 of Bill 338 be amended by adding thereto the following new subclause (4):

(4) A person is not eligible to be elected or appointed a director after the first day of July, 1959, if he has reached the age of seventy-five years.

MINUTES OF PROCEEDINGS

THURSDAY, May 6, 1954.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Applewhaite, Ashbourne, Balcom, Benidickson, Cameron (*Nanaimo*), Fleming, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Fulton, Hanna, Hellyer, Henderson, Huffman, Johnson (*Kindersley*), Johnston (*Bow River*), Low, Macdonnell, McMillan, Monteith, Noseworthy, Philpott, Quelch, Tucker, Weaver and Wood.

In attendance: Mr. Olaf Turnbull, a Member of the International Farm Union Council; Mr. C. F. Elderkin, Inspector General of Banks; Mr. G. K. Bouey, Assistant Chief, Research Department, Bank of Canada; Mr. T. H. Atkinson, President of the Canadian Bankers' Association and Vice-President and General Manager of the Royal Bank of Canada; Mr. M. Visser, General Manager of The Mercantile Bank of Canada; Mr. J. A. Fiott, Assistant to the General Manager of The Bank of Nova Scotia; Mr. W. T. G. Hackett, Assistant General Manager of The Bank of Montreal.

The Committee resumed consideration of Bill No. 297, An Act to amend the Bank of Canada Act, and Bill No. 338, An Act respecting Banks and Banking.

Mr. Turnbull was called and tabled a brief with respect to matters under consideration.

Ordered,—That the said brief be printed as Appendix "A" to this day's evidence.

The witness made a statement on the said brief and was examined thereon.

At 1.05 o'clock p.m., the examination of the witness still continuing, the Committee adjourned to meet again at 3.30 o'clock p.m. this day.

AFTERNOON SITTING

The Committee resumed at 3.30 o'clock p.m. Mr. David A. Croll, Chairman presided.

Members present: Messrs. Anderson, Balcom, Benidickson, Cameron (*Nanaimo*), Cardin, Crestohl, Dumas, Fleming, Fraser (*Peterborough*), Fraser (*St. John's East*), Fulton, Hanna, Hellyer, Huffman, Johnson (*Kindersley*), Johnston (*Bow River*), Macdonnell, McMillan, Monteith, Noseworthy, Philpott, Quelch, Stewart (*Winnipeg North*), Weaver and Wood.

In attendance: Mr. Olaf Turnbull, a Member of the International Farm Union Council; Mr. M. M. Robinson, Secretary-Treasurer, and Mr. Hughes Cleaver, Counsel, of the Ontario Fruit and Vegetable Growers' Association; Mr. C. F. Elderkin, Inspector General of Banks; Mr. G. K. Bouey, Assistant Chief, Research Department, Bank of Canada; Mr. T. H. Atkinson, President of the Canadian Bankers' Association and Vice-President and General Manager of the Royal Bank of Canada; Mr. M. Visser, General Manager of The Mercantile Bank of Canada; Mr. J. A. Fiott, Assistant to the General Manager of The Bank of Nova Scotia; Mr. W. T. G. Hackett, Assistant General Manager of The Bank of Montreal.

The Committee concluded the examination of Mr. Turnbull and he was retired.

Mr. Robinson was called, presented a brief on Section 88 of the Bank Act, examined thereon and retired.

During the course of the examination of Mr. Robinson, Mr. Cleaver answered questions specifically referred to him.

At 5.35 o'clock p.m., the Committee adjourned to meet again at 11.00 o'clock a.m., Tuesday, May 11.

R. J. GRATRIX,
Clerk of the Committee.

EVIDENCE

MAY 6, 1954.

11.00 a.m.

The CHAIRMAN: Gentlemen, I see a quorum. We have this morning the brief of the Interprovincial Farm Union Council which I shall now place on the record. This afternoon we will have the brief of the Ontario Fruit and Vegetable Growers Association supported by various marketing boards which I shall also place on the record. Our witness today is Mr. Olaf Turnbull who is the director of the Interprovincial Farm Union Council and who knows the brief thoroughly. I suggested, that instead of reading the brief which you have had for a few days that Mr. Turnbull comment on it and touch upon the high spots. I thought that would be more interesting to the committee, Mr. Turnbull informs me that he has no objection to that. I will now ask Mr. Turnbull to proceed.

Mr. Olaf Turnbull, Member of the Interprovincial Farm Union Council, called:

The WITNESS: Well, in summarizing the brief—do I speak loudly enough for you to hear me, gentlemen?

Mr. FRASER (*Peterborough*): We will tell you if you do not speak loudly enough.

The WITNESS: In summarizing the brief we followed the general procedure to establish a case for agriculture which is not unusual and with the particular object in view of endeavouring to determine whether or not commercial and industrial credit serve the best long run interest of agriculture. We note in the beginning of the brief a reference to the evolution of policy and that Canada has never had a free economy in the economist's sense of the word. I am not referring to freedom in terms of political freedom. We note that in order to bring the western planes in particular into scope and range of development that certain steps had to be taken. We also note that the role of government increases in this direction, and I might quote from one paragraph in the brief:

Political form, the government arm of social consciousness, has retained its traditional outward characteristics. But little else is left of Adam Smith's principles, even in Canada. The net social results of these cataclysmic effects have had, and will continue to have, far-reaching effects in establishing criteria for policy.

We point out in the above paragraph that following the close of the frontier, we subsequently had World War I, depression, World War II and now political and economic instability. Those are the cataclysmic effects referred to.

People have seen that governments can mould their lives, and civil servants learned how to do it. The thinking of the classical and marginal-utility theorists is not longer accepted as a means of discovering iron 'economic laws' but rather a means of evaluating man-made economic institutions.

I think the next paragraph has something that points the direction along which study must be made which is not covered in the scope of the brief. It is the conflict between animism and science, the supernatural and the matter-of-fact, and man's conception of his experience and the challenge to society in general presented by machine technology. It points out the necessity not only of economic research but also of social research on the part of sociologists.

The next part of the brief covers the economic position of agriculture and points out that agriculture is always in a relative period of decline with regard to the rest of the economy when the economy is in a period of expansion and you will note wherever we make a statement like that we try to establish our case by proper references which will stand up.

The third paragraph on page 3 brings us to agriculture's chronic difficult position, because (a) in an expanding progressive society, it must always be in relative decline to other industries and must always be in a process of absorbing a smaller proportion of the whole economic activity; and (b) during a period of "equilibrium" or contraction, agriculture is stressed sooner, more sharply and longer than other industries. We may conclude then that in any society where factors of production are allowed to move freely, the application of the principle of equal advantage will continue to squeeze people in agriculture. Now, the reaction of the farmer to his position of "perpetual squeeze" has taken, you might say, "classic characteristics." We have endeavoured to trace his reaction by an analyses of his costs and we divide them into two classes, his fixed costs and his variable costs, fixed costs being rent, interest on investment, obsolescence and depreciation, insurance, taxes, and wages to himself and family, and variable costs being current supplies, hired labour and repairs and replacements. Now, studies show that the trend is on the part of the farmer to let his fixed costs slip because he simply must continue to meet his variable costs which are current supplies, hired labour and repairs and replacements. The number of farmers who cannot meet these costs varies in proportion to (a) the level of prices, (b) climatic conditions (c) soil fertility, and (d) the application of technology. The application of technology bears special reference because of the role of governments in societies in developing technology. There are great sums of money spent in devising and seeking out better technologies which in theory, I suppose, were so designed and so sought out on the assumption that the farmer's position would be improved; but careful analyses would show that this is not necessarily true. After the application of technology his economic position may be better off, the same as before or even worse than before. That is, his net income might possibly be less than it was before the application of technology. We make a statement on page 4 which I believe I should qualify a bit where we say:

According to present trends, Canada should gain a larger share of a reduced market.

I am thinking there mainly in terms of wheat. Marginal wheat producers who have alternate employment will shift and those who have no alternative will become subsistence farmers. The better lands will produce a smaller net return than formerly and much of the land presently occupied will become sub-marginal. In addition, mechanization, while assisting in reducing costs, finally will result in populations excessive in relation to employable resources.

Five possible solutions to this trend are: (a) subsistence farming, (b) part-time farming, (c) wage labour, (d) relief, and (e) intensive agriculture. I put as one instance irrigation which, I suppose is the one which comes most commonly to mind. The extent to which society pushes toward greater efficiency on the one hand and tolerate subsistence on the other, is an acknowledgment that men are slaves rather than the masters of their own machines. Some of the steps that the individual is forced to take in meeting the variable

factors that influence his economic position are not in best interests of agriculture and the dominion. This is the main reason why public assistance to individuals is justified. Two main factors in which the public has sufficient interest to assist individuals are (a) technical progress and (b) soil conservation.

After that analyses we have tried to establish criteria for policy. We point out that criteria for policy continues to change and therefore it is difficult to establish any permanent basis for policy but in evaluating agricultural credit the following may be acceptable as criteria: 1, policies should assist conservation of soil and water resources. 2, policies should help conserve human resources. 3, policies should help improve rural institutions. Implied in these criteria is the concept of "national well being." In our highly integrated society, general welfare is accepted as paramount. There can be no privilege or advantage for any single group that cannot be supported by any other.

In evaluating the types of financial service we note that there are three main classifications: one, direct grants to farmers who, because of misfortune, have exhausted their resources and therefore cannot be expected to repay regular loans. Two, loans by agencies subsidized indefinitely by the government in order that they may accommodate farmers who have ability but whose financial position is weak. Three, credit on a "business basis", which means that the farmer repays the full amount of the loans, plus a rate of interest that will cover losses, operating costs and net the investor furnishing the funds the prevailing rate of interest.

On page 6 we point out that during the expansion of the west commercial and industrial type credit served because a person when in agriculture becomes too highly encumbered through factors not necessarily due to his own mismanagement—they may be climatic or geographic—he had the privilege of pulling out and striking off a new claim, but with the closing of the frontier and with the amount of land relatively fixed we find a different position. The challenges pointed out on page 6 still exist and the intensity generally varies with the level of prosperity. No more geographic frontiers are left to be conquered. These are agricultural frontiers, of course. The development of world markets proves to be slow and unpredictable and unfortunately war seems to be a reliable substitute stimulus for our pecuniary economy. This brings us sharply to the objectives of monetary policy, and the methods of accomplishment under the heading of the relation of credit facilities to land tenure. We note that one of the fundamental ideals underlying early democratic ideas was the widest possible diffusion of privately held land, occupied by owner operators, in family-sized units. To this end, early land grants and land patents were made. The preemption laws, and later homestead acts, were designed to attain the same objective. The general trend has been away from these objectives and tenure has changed from almost 100 per cent ownership at settlement to 77·8 per cent ownership in Manitoba, 65·5 per cent in Saskatchewan and 65·9 per cent in Alberta. In the last decade this trend has been offset by favourable farm prices, but will be resumed when conditions change to the farmers' disadvantage. It should be noted that the tenure of part owner-part tenant has been increasing steadily.

As pointed out on page 7, there is a conflict in values held by Canadians in this respect. On the one hand there is the belief that farm land should be owned by those who till the soil in family-sized units. On the other, under the philosophy of free enterprise, a man may acquire as much land as he can pay for. The family farm theory of tenure consists of the following general propositions:

1. Farmers own and operate their farms as independent entrepreneurs.

2. Farm units are large enough to yield farm families an acceptable standard of living.

3. Farm units are not larger than the farmer and his family can operate without depending upon substantial year-round hired labour force, so as to provide a wide dispersion of land ownership among farmers.

4. Farm families are secure in the occupancy of their land.

The farm business theory of tenure consists of the following general propositions:

1. The business of farming is conducted along the financial, organizational and managerial principles applied in any other non-farm business.

2. The free market forces are allowed to determine the tenure status, size of farm, and family income for each farmer, agricultural worker or employer according to his individual ability to take advantage of the market.

3. Farmers are not accorded any legislation protection and aid that is not given other producers elsewhere in the economy.

The Farm Union believes that the welfare of the nation and of the rural community is best served by the family-farm type of tenure.

Private credit facilities are not designed to establish and maintain the family-sized farm. Functioning on a "business basis", they have assisted in the exploitation of human and land resources and the breaking down of the tenurial system to that of tenancy.

I use the word "exploitation" there in the economic sense.

Neither insecure ownership nor tenancy are in the best interests of the dominion.

Our present private credit facilities evolved with the industrial revolution, the expanding frontier and the exploitation of resources. The mechanism operated efficiently, in keeping with social philosophies and drawing spiritual serenity from the teachings of Dr. Malthus.

It has been impossible to utilize these credit systems to the best interest of agriculture. The attempt to finance agriculture by industrial and commercial facilities has assisted soil mining, erosion and insecure tenure.

The first attempt at correcting this situation on a national scale has been made with the Farm Improvement Loans Act. The brittle nature of agricultural credit by commercial banks was thus partially offset by utilizing the broader economic base of government structure.

RECOMMENDATIONS:

A. *Production:*

1. The creation of a federal agricultural development bank designed to fit the needs of agriculture, with provincial branches to facilitate operations.

2. Capitalization to be:

A revolving fund by the federal Treasury and gradually retired by earnings and by virtue of the fact that farm loan associations would subscribe to stock in amounts equal to 5 per cent of loans.

3. Loans to be made through farm loan associations consisting of not less than ten persons who elect a board of directors of at least five members, who choose a secretary treasurer and a loan committee of three.¹⁴

¹⁴Operations should be such that credit unions should be able to act as outlets, particularly where credit unions are well established.

4. In application for a charter, an affidavit to be included stating each of the organizers is the owner, or about to become the owners of farm land qualified as a basis of development bank loan; and to be accompanied by a subscription to stock in the development bank equal to 5 per cent of the desired loans.

5. Once a new association is set up, a new borrower applying for membership subscribes to stock in the association to an amount equal to 5 per cent of his prospective loan.

6. The borrower's application should be unanimously approved by loan committee and directors; a report to that effect then sent to the development bank which would grant the loan.

Security:

1. Joint endorsement. The local association endorses the member's note before it is sent to the development bank. This endorsement has value from the fact that the association owns shares in the development bank equal to 5 per cent of the total loans.

These are purchased out of proceeds from the sale of a like amount of its shares to its own members.

2. In addition, the loan is to be secured by a recorded first mortgage on the land within the district, not over 75 per cent of the appraised value of the land itself, plus 20 per cent of the value of permanent insured improvements.

Repayment:

Amortized payments of principal and interest to extinguish the debt from 5 to 40 years; in addition, the whole or any part may be paid after five years.

Interest to be not more than one per cent above the last issue of development bank bonds.

Who may Borrow:

Persons engaged in, or about to be engaged in, the cultivation of the mortgaged land may borrow. If the loan is to be for cluster or line settlement, the borrower need not live on the mortgaged land.

Purposes of Loans and Rates:

1. To buy agricultural land, equipment, fertilizer and livestock.
2. To liquidate indebtedness of the owner incurred for agricultural purposes.
3. Other general agricultural purposes; rates to be one per cent above rates of last issue of development bank bonds.
4. To encourage and develop conservation of soil, water and fodder; rate to be $1\frac{1}{2}$ per cent.
5. Cluster, or closer settlement, and rural housing.

1st year	1%
2nd year	2%
3rd year	$2\frac{1}{2}$ %
4th year	3%
5th year	$3\frac{1}{2}$ %
Thereafter	4%

B. Marketing Loans to Marketing Boards and Co-operatives:

1. The federal agricultural development bank would administer loans to co-operatives and regional or provincial marketing boards; these loans to be made to finance the storage and marketing of agricultural commodities.

2. In order to increase stability of supply, some system of forward pricing would be incorporated into the plan.

This is: (1) Forecasting demand and prices for agricultural products handled by the Board to assist in planning production.

(2) If the market price were higher than the price forecast, the difference would accrue to board reserves.

(3) If the market price were lower than the forecast price, the difference would be made up by Board.

(4) Crop insurance.

Marketing in Depression Times:

Depressions are international in scope, and market prices for agricultural products always collapse ahead of other prices. Farmers are not responsible for this collapse, as consumer demand has a great bearing on the situation.

Under a compensatory plan, the board would pay market price, plus a fixed percentage of 65, 75 or 80 per cent as decided, of depression prices. The fixing of the subsidy would be done arbitrarily.

The agricultural development bank would be responsible to make sure that rates to boards and co-operatives are kept to the point of nominal profit.

If surpluses accumulate beyond the point of adequate reserves, they would be transferred to the production credit branch to be used in defraying costs.

Subsidization of production credit, if any, would be justified by:

(1) Maintaining agriculture's economic position.

(2) Conservation of soil resources.

The Canadian Farm Loan Board, with its present provincial and central offices, could be expanded into the agricultural development bank, perhaps with some joint sharing of dominion, provincial and local responsibility.

In the appendices we have a number of tables indicating the position of the western farmer with regard to tenure and income; and in appendix No. 2 we have the economic effect of tenure which I do not think I will take the time to read. But it is a study which points out the effect upon the economy as a whole when you introduce any type of tenure system that is not followed by some system of compensation.

By Mr. Applewhaite:

Q. I wonder if the witness will be good enough to include in his initial statement just a general outline of the area that the Interprovincial Farm Union represents so that we may know what provinces or areas are supporting this system?—A. This area is Manitoba, Saskatchewan and Alberta. Ontario is now a member of the Interprovincial Farm Union Council but at the writing of the brief it was not taken into consideration.

The CHAIRMAN: Now, gentlemen, we will have the questions. First, Mr. Fraser.

By Mr. Fraser (Peterborough):

Q. Mr. Chairman, to begin with, what figure have you put on the revolving fund? What figure have you in mind there?—A. I have no figure.

Q. In making loans as you suggest here you have mentioned a figure of 5 per cent that they would have to take in. What do you call it here?

The CHAIRMAN: Subscription of stocks.

By Mr. Fraser (Peterborough):

Q. Yes. How did you come by that 5 per cent? Why do you say it is 5 per cent that they would have to take?—A. In the consideration of the agricultural

development bank we have undertaken a certain amount of study of similar types of agricultural credit in other nations and that seemed to be the one acceptable type where the loan associations' subscription is 5 per cent.

Q. They would only put in 5 per cent; but it is mentioned here that the local associations would endorse the member's note?—A. That is right.

Q. Before it was honoured by the development bank, and then the development bank would issue the loan. How would the development bank itself be assured that the local association was capable of judging as to whether the man should have a loan or not?—A. I would imagine that would have to be done jointly between the local association and the regional board of your agricultural development bank.

Q. You would have to have an inspector in there too?—A. Oh, yes.

Q. And on top of that may I ask you this: would you make a loan of this kind to anyone at all who said he wanted a loan? I know that if I were a bank manager and a person came in and asked for a loan for a farm, I would hesitate unless that man had some former experience with a farm and I would not give him preference unless he had some agricultural college training. Had you that thought in mind?—A. I have thought of it but I do not see the point of your question, Mr. Fraser.

Q. Well I do because I do not think nowadays with the specialized agriculture that we are doing, that a man is capable of handling a farm; a young fellow coming along now is really not capable of handling a farm unless he has had experience on a farm or unless he has been to an agricultural college.—A. Does Mr. Fraser mean that loans should be restricted only to those who have had formal agricultural training?

Q. I say that, yes, either on a farm or in a college.—A. I do not think any farm community would quarrel with the idea that persons who are going to be granted loans would have to be of the type who know agriculture and who show promise; and in other words are pretty well along the line as Mr. Fraser has suggested, possibly with some training, certainly either academic training or practical training.

Q. That is all.

The CHAIRMAN: Mr. Balcom?

By Mr. Balcom:

Q. On page 3 of your brief in the fifth paragraph, would you mind expanding a little on that paragraph?—A. Starting where, Mr. Balcom?

Q. In the fifth paragraph, which reads as follows:

This brings us to agriculture's chronic difficult position, because (a) in an expanding and progressive society, it must always be in relative decline to other industries . . .

A. Yes, I think so, Mr. Chairman. In any period of the economy, agriculture is always squeezed, as you know. The cities import personnel. They are exported from the farms. Sociologists tell us that cities are not in a position to maintain their own population but have to draw continuously from rural areas. It is a fact that this movement does happen.

The reason people leave the farms of course is because they are squeezed out. In an expanding economy the amount of resources that are divided between agriculture and other industries is to the detriment of agriculture; that is, there are fewer and fewer resources in agriculture because of technology. This means that fewer resources are used to produce the same amount of goods and therefore, as this is done, other resources are freed which theoretically at least can move to other parts of the economy. You may say that this is a closed concept and that you are just considering a local area but I believe that we now consider the world itself as a single economy in a broad manner and therefore the same trend continues.

The result of it is this: that there are always some lands coming out of production because better areas can produce at a lower price level and therefore the squeeze is maintained and will continue.

Q. Do you not think there would be a greater squeeze, let us say, on the fishing industry than there would be upon agriculture?—A. Oh, well, exactly; the situations are identical. I would include with it any industry which produces primary products. The situations are similar.

Q. On page 6 of your brief you say:

The general trend has been away from these objectives, and tenure has changed from almost 100 per cent ownership at settlement to 77·8 per cent . . .

Is there anything particularly detrimental or wrong in that?—A. Well, in the first place it is not in keeping with the ideas of the original homestead Acts. I point out that that is a differentiation in the objectives. Originally these policies were developed with the idea that the agricultural population and the economy as a whole should be composed, so to speak, of owner-operators, this is not the case.

Is there anything wrong in that? There is, yes, and consideration of appendix No. 2 which considers the economic effects of tenancy. You cannot have a proper allocation of resources under any system of tenancy without a very adequate system of compensation which, as far as I know, does not exist in Canada.

Q. This is my last question. On page 3 of the recommendations I read:

Depressions are international in scope, and market prices for agricultural products always collapse ahead of other prices.

Is that a true economic fact, on page 3 of the recommendations?—A. "... market prices for agricultural products always collapse ahead of other prices." Well, of course, this could become a difference of opinion and we would have to have a referee in order to say what is correct.

The CHAIRMAN: Mr. Quelch?

By Mr. Quelch:

Q. On page 7 you say:

The Farm Union believes that the welfare of the nation and of the rural community is best served by the family-farm type of tenure.

You would agree, would you not that the most efficient farm today is the farm that is sufficiently large to utilize fully the employment of farm machinery, and that unless the farm is large enough for that, you are simply increasing your overhead charges? You would agree with that?—A. Yes, I would agree with you.

Q. And in that case it is not only the family type of farm—and I would agree with the line that it is more beneficial to the district to have the family type of farm. On the other hand you will find many highly efficient farms run by men without any family at all, that is run as a strictly business operation. They will live in town and not on the farm, and the farms are highly mechanized and run very efficiently. It is not very beneficial to the district but it is a type of farm with which it is very hard for the average family type of farm to compete.—A. You mean it is difficult?

Q. Yes.—A. I agree.

Mr. MACDONNELL: Mr. Chairman, I wonder if Mr. Quelch would mind giving us some idea of the acreages which he has in mind? I do not think they have been mentioned.

Mr. QUELCH: I would imagine it would depend on the locality.

Mr. MACDONNELL: You were referring to the semi-dried areas where an economic type of farm would have to have about two sections of land?

The WITNESS: You think that would have to be the minimum?

By Mr. Quelch:

Q. Yes; I would say that in the dried-out area you would have to have a farm of at least two sections?—A. He should have, but whether he does or not is another matter.

Q. I agree but in order to operate with the highest form of efficiency you must have about two sections of land in the dried area. The trouble is, where you have family farms in the dry areas, as the children grow up, the tendency is for the farmer to try to get his sons to stay on the farm, and if the sons do stay on the farm without being able to expand the size of the farm they tend after awhile to reach a form of subsistence farming where it is no longer large enough to support the family. That is one of the troubles we have in eastern Canada. The provincial government has gone so far as to refuse to allow expansion of population in the dry areas because the moment you expand the population above a given amount of land you find yourself facing a great many problems.—A. I do not think it is meant in this brief, and I am sure Mr. Quelch did not mean it either because he understands that area; I know he did not mean to say we are going to have small type farms in a dry area. No, but where you have these large business type of farms, where you have large acreages being planted to a type of crop that facilitates that type of movement—Mr. Quelch mentioned the business of farming in the dry areas in the summer and moving in the winter—you have several things which bear some consideration. First of all, you have social costs which he mentioned, but there is another one and that is soil erosion. Recognition of this situation must be given allocation of resources. The size of the farm is not so important in this instance as the utilization of resources in a semi-arid area. Mechanization is easy to apply in the growing of wheat but there is only a limited supply of land for growing wheat. In the semi-arid area the best top soil is clay or clay type loam, but as the farm increases you soon get into larger units. Instead of having a smaller tractor and smaller machine you have a larger tractor—perhaps 60 horse-power, which means larger field; and as soon as you do that you are no longer recognizing the different types of soils and their utility in the production of wheat. Some of these soils should be left in grass, but that type of farmer will not leave them in grass. He will know, because he is a farmer, that he is taking a chance on soil erosion, but there are several factors which lead him to do that. One is the type of credit which is extended to him which demands he bring in a quick cash return, because his notes fall due annually—do they not—and he has to repay them. First of all, he concentrates on the single commodity as the most generally suitable and easy to store. He ends up with wheat and the result of that is when the climatic conditions change or it is a bit dryer—it does not take much; an inch or two less of rain, a degree or two higher of average summer temperatures, a slight increase in the wind velocity—and you have a dust bowl area. Once farmers are in that position the issue goes out of the hands of the farmers and back into the hands of the dominion.

It would be far cheaper if in some manner the farming population would be given an incentive to concentrate not so much on a single type of crop that leaves soil resources so open to erosion. We are told that we have used in the west about 30 per cent of the soil fertility, in, I suspect, as many years. Most of that fertility has not been replaced and under the type of farming that is under discussion it will not be replaced. The farmer will continue to

concentrate on cash returns in grain where he can show a quick profit and meet his obligations and then get out, I guess. He is forced into that position against his farming instincts of preserving the soil.

Q. I would agree with Mr. Turbull wholeheartedly, but as I think he will admit we do find in many districts that the other thing is happening because it is a quicker way to get a cash return.—A. We know that it is happening, Mr. Chairman, but we do not like it, and that is the purpose of the brief.

Q. I have no doubt a ready system by which we would guarantee fair prices for farm produce apart from just a straight rate would be going a long way towards helping the family-size farm unit on a sounder basis, but the tendency is now as prices fall farmers try to expand their units and farm the cheapest way they can as long as they get a return, but they leave themselves open to the creation of soil erosion. On page 8, the last paragraph, the following sentence appears:

The first attempt at correcting this situation on a national scale has been made with the Farm Improvement Loans Act.

I would like to ask the witness what he considers are the main weaknesses of the Farm Improvement Loans Act in regard to financing or production. I am not referring to professional marketing boards. Would you say it is chiefly that the period of time is not sufficiently long and the rate is too high?—A. Yes, and the other factor would be that it lends itself to the financing of a liquid asset. It is a disposable asset in theory, and in the event the farmer cannot meet his payment he can dispose of the assets. Therefore emphasis is made on using the legislation towards greater mechanization—it lends itself to that. There is nothing in the Farm Improvement Loans Act because of the time factor and the other factor I mentioned which would encourage a man to sow down half his farm into grass, if it should be sown into grass because he simply reduces his acreage by half. But in the best interests of the nation it perhaps should be sown to grass.

Q. I think that is a very fair criticism. The farmer is eager to show a quick return in order to meet his payments. On page 2 of the recommendations—this is purely for information—I would like to get a further clarification of some of the propositions under the marketing loans to marketing boards and cooperatives. The last line on page 2 says:

If the market price were higher than the price forecasts the difference would accrue to board reserves.

I take it the price forecast is a set price?—A. Yes.

Q. And the same would apply on the next page to market prices? "If the market price were lower than the forecast price, the difference would be made up by board." In both cases it is a set price?—A. Yes.

Q. If the set price is above the market price the surplus goes to the board?—A. Yes.

Q. Now then, further on down that page it says: "Under a compensatory plan, the board would pay market price, plus a fixed percentage of 65, 75 or 80 per cent as decided, of depression prices." I do not quite understand what that means. Can you expand on that further?—A. Well, the price would be forecast, and by the time the produce became sold there may be a difference between the actual price that could be realized and the forecast price which might be lower than the forecast price. It would not be necessary to make up the full difference, particularly in a period of depression, but in any recommendation for assuming obligation the plan would envisage that you would only compensate up to 65 per cent or whatever parliament would decide to give as a compensatory price above the actual depression price.

Q. You would still contemplate that the federal government would guarantee a minimum price?—A. Yes, the minimum price compensated would be in all fairness, such a price that would not tend to pile up huge surpluses or concentrate on a main obligation of resources—I would not class it so much as an incentive price, as a—the word I can think of it “catastrophe” which is not quite the right word—something that would support agriculture from dropping out the bottom.

The CHAIRMAN: Perhaps you should say a support price—don’t use the word “catastrophe” around here!

Mr. HUFFMAN: Is it not commonly known as a stop loss price?

The WITNESS: Yes, that is the word, thank you.

The CHAIRMAN: Farm-boy Huffman! Mr. Henderson?

By Mr. Henderson:

Q. I was going to ask about the Farm Improvement Loans Act but Mr. Quelch covered that. Do you think your council would take the place of that in the vicinity where it would operate in the three provinces?—A. Mr. Chairman, I do not quite understand the question. Do you mean the council or the agricultural development bank?

Q. I mean your setup?—A. Yes. Did you ask if it would take the place of it?

Q. Yes.—A. Not necessarily, but offer it competition.

Q. If it were more attractive, do you think the farmers would take advantage of your suggestion or would you give them more than they would get under the Farm Improvement Loans Act?—A. Of course, that would depend. I would envisage a certain amount of stickiness in the application of this.

Q. Of what?—A. Of the agricultural development bank, in that you may not find the person to person relationship between the borrower and the manager of the local bank.

Q. What you are trying to do is something along the lines and equivalent to the Industrial Development Act?—A. Yes, exactly.

Q. Do you think farmers are not satisfied with the assistance which banks are giving them as far as credit is concerned today?—A. It would be presumptuous of me to speak on behalf of all farmers.

Q. Well, generally?—A. Well, generally I would say that as a certain type of credit the banks have certainly done a firstclass job, but with regard to certain long-range objectives, and particularly with regard to conservation, the banks’ position is such that they simply cannot enter the field, that is all.

Q. If your suggestions were effective, do you not think you would be segregating agriculture from all other industries?—A. Well, that may be.

Q. Do you think that is healthy?—A. Yes, I do. I lump agriculture in with all industries that produce primary products. I think they are in a special class by themselves, and deserve certain types of credit.

Q. What about the persons who are operating farms who—for no reason other than they have nothing else to do in the winter—they do work at something else? Do you think they should be given loan privileges over the rest of the people of Canada?—A. When you get to specific cases as this where you have an individual, Mr. Chairman, and his position is a certain type then you would have to rely on the joint responsibility between provinces, the dominion and your local community and that would have to be shared jointly. That is one of the reasons why you have the emphasis placed on the local community.

Q. Well, this would not be for every community. You would select a community in which to operate.—A. I would not be prepared to answer that. The original plan was that it would be for agriculture generally, not for any particular community.

Q. But now you agree that it would not be applicable?—A. No, I do not agree.

Q. It would not be applicable in every community?—A. I would not be prepared to answer that at this time.

Q. I noticed that you have the association endorse the members' notes. I would just like to know how this association gets its funds. In your recommendations concerning security I notice you have the association endorse the members' notes. I just wondered where the association got its funds to become an effective endorser which would be acceptable by a good business bank? It is in exactly the same position as people who wish to make themselves acceptable now, Mr. Chairman, having the privilege through joint endorsement of having sufficient interest in the community as a whole to act as a cooperative or simply save it.

Q. But where does the association get sufficient funds to be an effective endorser. They must have some capital back of them. Where do they get the capital?—A. Well, there is only one place you can get capital and that is through their own production of course, and the saving of their necessary 5 per cent of the loan they are going to subscribe to.

Q. But where do they get the capital to begin with?—A. Do you mean the capitalization fund?

Q. No, the capital. The association endorses the members' notes. I am trying to find out where the association gets sufficient capital?—A. This association I am referring to in the recommendation is the local association.

Q. Yes, I understand that, but where does it get its capital?—A. The association would be formed of at least 10 people who have enough capital to subscribe to 5 per cent of the loans that are required.

Q. Well, that was just what I was getting at, sir. I notice in paragraph 2 of the recommendations concerning security that the loan is to be secured by a recorded first mortgage on the land within the district, not over 75 per cent of the appraised value of the land itself, plus 20 per cent of the value of permanent insured improvements. Does the association hold this mortgage?—A. No, that particular mortgage would have to be filed directly with the agriculture development bank.

Q. Who is the mortgagee and who is the mortgagor?—A. The mortgagor, I suppose, would be the association, if I am using that term correctly, and the person or the corporation holding the mortgage would be the federal development agriculture bank.

Q. You have a mortgage of 75 per cent, a registered mortgage, is that correct?—A. Yes.

Q. Does that not do two things: first, decrease the land owner's possibility of obtaining credit anywhere else?—A. Well, at present, I do not know. For instance, if you are thinking of individual farmers now, and the method by which credit is extended to them through commercial banks, speaking locally I do not know of any people who are hypothecating land.

Q. No, but if the land owner has a mortgage of 75 per cent of the value of his land given to an association, does not his credit as far as third parties are concerned decrease considerably?—A. That could be. The point is this: if you would study some of the tables with regard to sizes of units and positions of farmers, it would help clarify this.

Q. But I am talking now about the paragraphs in your brief concerning mortgages?—A. Let us put it this way: The people who are in this position are having a very difficult time in maintaining themselves and because of that they are going to follow certain agricultural practices that would be a detriment to society in general.

Q. But you agree that having a mortgage of 75 per cent of the value of the land would decrease the possibility of their obtaining credit as far as outsider lenders are concerned, is that not right? That is the first point. The second point I was going to make is that in this particular area due to that mortgage over security being given to that association that the development bank would have a complete monopoly on all credit lending in that area, because the farmer could not go outside to do his borrowing because he has no assets?—A. Mr. Chairman, we are getting into speculation now, and the best I could do would be to point to other areas where certain types of agricultural credit have been extended and to the best of my knowledge it does not happen quite along the line that Mr. Henderson envisages. There may be localities where it would happen, but in terms of other nations, for instance, it is noted that certain specific types of agricultural credit are extended in conjunction with the general lines of credit as we know them today. In other words, you do not establish a monopoly and simply push all other types of credit off the map.

Q. Do you think in a case like that that Mr. Atkinson's bank would give those people a loan?—A. That is a question I would not want to answer, because in the first place I would incriminate Mr. Atkinson.

Q. Well, take any bank. Do you not think the borrowers would be restricted in borrowing elsewhere?—A. It is not so much what is going to happen with regard to commercial and industrial credit and your land development bank, because the way we look at the plan is this, that the industrial and commercial credit fulfils the end along certain lines, but in terms of long range credit they are not in a position to do so. That would be the answer. They would have a particular function within a particular type of credit. This establishes a line of credit which would, as I envisage it, might in some small way conflict in certain areas, but it is not designed to conflict or to establish a monopoly along the lines of credit as they already exist, because commercial credit as it is generally understood is short-run, and intermediate rather than long-term credit in the main and has certain specific characteristics.

Mr. Low: Mr. Turnbull would suggest that people who now have mortgages on their farms running for fairly long terms could receive accommodation from the banks for their year to year operations.

The WITNESS: They do.

By Mr. Henderson:

Q. Supposing they want to use 75 per cent of their appraised value which is mortgaged, what happens to the rest of the security?—A. You mean the other nine?

Q. Supposing they only wanted to borrow 25 per cent—what would happen to the 50 per cent?—A. That, as far as I am concerned, would be up to the local group. They would have to meet certain stipulations. I am not saying, for instance, that it would have to be 75 per cent, and not 74 per cent, but as an initial point I am using that. But once you establish any criterion if you have a local group which does not want to meet that, that is their privilege.

Q. But it is still recorded?—A. I assume if they did not want to take it out there would be no mortgage. I do not understand your question. For instance, if the regulation stipulated that a grant would be met of 75 per cent I assume that would be the qualification, and if you wanted to take less than that, it would not be available.

The CHAIRMAN: Mr. Fraser?

By Mr. Fraser (St. John's East):

Q. To revert to page 3 for a moment and to pursue the line of inquiry begun by Mr. Balcom, I am rather at a loss to understand why in a progressive society agriculture must be in a decline in relation to other industries. In an expanding and progressive society there would be a greater demand and higher prices for agricultural products and also cheaper production as a result of the application of agricultural technology which would lower the cost. I would like to have the witness' observations on these comments.—A. May I suggest, Mr. Chairman, that as an economy expands—as Mr. Fraser points out—and as you engage certain technologies that you have a reduction of cost. This is not necessarily true. You may actually have an increase in costs. For instance, you have three general types of technological progress. You have better facilities and you might call these biological innovations such as more pounds of beef on fewer acres and so forth, which increases the total cost over the pre-innovation period. For instance, you start applying fertilizer or feed supplements, etcetera. Now, whether or not your net return is greater or less than it formerly was depends partly on the elasticity of the demand for the product.

Q. But that would not over-weight the proposition you make?—A. No, it would have to be divided into three classes, the biological innovation, the mechanical innovation and a combination of the two which gives us the three types. I stand corrected on that. It should have been broken down into the three types.

The CHAIRMAN: Mr. Hellyer?

By Mr. Hellyer:

Q. Mr. Turnbull, what did you mean by the phrase you used earlier when commenting on your brief that we do not have a free economy in the economic sense?—A. If you have a free economy you simply have no restrictions. You have no tariffs. You have no combines or price supports or anything. You simply operate in perfect competition which is simply not the case.

Q. Were you talking about the Canadian economy?—A. Yes.

Q. And you insist on bringing tariffs into a discussion of freedom in the Canadian economy?—A. I just point out that in the economic sense we do not enjoy a free type of economy.

Q. I also wish to ask you about another phrase you used. You used the phrase "economic and political instability." I would like you to elaborate on that.—A. What page?

Q. That was in your comments.—A. What was the comment?

Q. You said we had economic and political instability at the present time.—A. I do not think I said that.

The CHAIRMAN: I do not think the witness said that.

The WITNESS: I do not remember saying that.

By Mr. Hellyer:

Q. If I heard him correctly he said both.—A. I do not remember. I could not vouch that I made that statement.—But I would point out this: that when you have any group of people, particularly agricultural people, forced out of production, you do have a group at least who certainly have very grave questions in their minds, and furthermore you have a particular type of group. Agricultural people conduct their lives in a certain manner that requires characteristics—I am not saying that they are better than other people, put it this way—when they come to a city they would rather not be on cement; they would rather be on soil; they do not like the noise of traffic, and smoke, and smog, and so on. These are social things, I know, but they enter into your community.

Q. A lot of these people come to live in the cities when they have the opportunity not to?—A. That is right.

Q. Yes. Quite a few farmers have lost sons to the city when they could have stayed at home quite well and made a comfortable living?—A. When you have a family group, any individual may have an individual choice; but I am speaking especially of farmers. Take a man who has been producing and farming and you have a catastrophe or a situation, let us say, where certain groups of these people are forced off their land. I do not want to go any further with that, but we have had illustrations of that sort of thing and the social effects of it, especially on those people who are forced into the cities; they do have a different outlook upon the conditions which put them there and so on, a different outlook than city workers would have if they were put out of their jobs.

The CHAIRMAN: I gather from what you say, that the only people who go to the cities are those who are forced into the cities?

The WITNESS: Probably I am biased a bit, but I do think that.

By Mr. Hellyer:

Q. I would like to pursue that point because in the last fifteen years, let us say, there have been thousands of farmer's sons and daughters who have moved to the city when the farm was capable of supporting them economically and providing them with a good living. How were they squeezed, and in what manner were they squeezed?—A. Well, Mr. Chairman, in the first place I would challenge the statement that they could have stayed on the farms and made a good living. You have no evidence with which to bear that out. That is just your personal opinion. And further to that, I would suspect, Mr. Chairman and Mr. Hellyer, that the mere fact that they moved indicates that they did not have a chance to make a good living on the farms.

Q. I challenge your statement too, and you say I have no evidence. But let me say this: that in some cases the farmers whose sons disappeared to the city have sold their farms to people who, after borrowing sums of money to make the transaction, have paid off a lot of it, and have purchased better tractors and so on and reduced the mortgages and have bought for themselves a vast variety of consumer merchandise in addition. That would lead me to believe that the farms had some economic potential at least during that period.—A. I wonder what area Mr. Hellyer comes from?

Q. I can point out quite a few examples, and I think that Mr. Huffman could point out quite a few more.—A. There may have been certain farmers who did enjoy the economic position you have described where their land holdings are sufficiently productive so that they could accommodate their sons and buy cars and so on. There may be some I suspect there are—if you glance at the statistics in the appendix and look at the first page, after page 3 of the recommendations, where you have farm holdings classified in Alberta, and if you glance at that you will see that by far the majority of farmers—this is the value of products sold, from the Dominion Bureau of Statistics—you will find that approximately 50 per cent produced the gross product that simply does not put them in the economic position which Mr. Hellyer describes. That is all, plus the fact that Mr. Quelch pointed out that in the semi-arid areas you have to have two sections of land in order to establish an economic unit. If any of you have any idea of the capitalization required on such a farm you will see that the only way such a farmer can exist in such an economic situation is by absorbing the full extent of his depreciation in farm cash income; depreciation on his machinery; depreciation on his buildings, and depreciation on the soil.

I do not know how many millions of dollars of produce has been exported from the western regions in the form of grain, but if you could calculate the

amount of the soil resources that have been depleted by that production you will see that to replace those resources in terms of fertilizers, or in terms of percentage of fertility in grain shipped, you would come pretty close to a large share of the income which Mr. Hellyer has been pointing at. It is accomplished by simply not meeting the full cost of depreciation, particularly of soil depreciation. It is true that soil depreciation has never been calculated as yet, but some day it will be, and the nation as a whole will simply have to pay.

Q. I think that the large capitalization required for that amount of land might reflect the market value which, in turn, must have some relation to the earning power of the assets. Now, I have another question. Would you care to indicate the main reason you recommend the creation of a federal agricultural development bank? Is it because the functions of the chartered banks could not fill the requirements? Presumably it was in the field of long-term credit?—A. Yes.

Q. Would you mind elaborating on that a little more for us? We are primarily studying the Bank Act and not the creation of new bodies. Can you tell us just how the banks cannot fulfil this function and whether it is due to a limitation in their policy or in the Bank Act, over which we have some jurisdiction?—A. Well, the point I make there is that the commercial and industrial type of banks never have had a sufficiently wide economic base with which to establish the type of credit needed in agriculture which basically is long-term credit and with that point in view you do have your Farm Loans Improvement Act which would tie in with the economic base of the government. Immediately that policy came into effect a substantial amount of money was made available for certain specific requirements. But I would suspect this: that either the continuation of the same sort of policy, or such a policy as we envisage it here, would be the proper line. The main difference you see, if that be so is this: why bother the banks and the agricultural development bank?

Q. That is the point, yes.—A. The point is this: that farmers, generally, and society, generally, have been led to believe that there is a great virtue and value in owning your farm land, and the farmer-operator. There is a difference from the farmer's point of view in hypothecating his land, or mortgaging it to a credit association, or the agricultural development bank; that does accomplish the specific objective other than putting his land in a position where it may simply become an asset of a commercial bank. You see, there is a difference.

Q. But if the terms are the same, then what is the difference? Is it strictly a psychological approach?—A. No, there is another difference and it is this: that I think the nature of the banking structure with its short-term and intermediate credit simply does not lend itself to the extension of long-range credit to agriculture.

Q. But what about the farm loan Acts? Do you think there is any way they could be strengthened to fulfil the same function?—A. No. I think I would simply be plowing over the same ground that I did before.

Q. Do you think there is any other way your primary objective could be accomplished, let us say, by means of a tax policy or something like that which would encourage soil conservation and the better utilization of resources over the long term?—A. I am glad you brought that point up. This, of course, would not fulfil the entire issue. You simply cannot take any one particular line of your agricultural economy and not develop the others; otherwise you get yourself into a state where you simply cannot extend certain types of credit. And especially to achieve certain objectives in conservation without introducing certain other fiscal policies; but what the combination of those are I am not prepared to say at this moment; but they certainly would have to be studied.

Q. Have you any suggestions at all along that line?—A. Not at this time, but I think they should be watched.

Q. On the question of "stop loss prices", do you think they should be confined to staples?—A. By staples you mean what?

Q. Something that could be usefully stored over a period in excess of a year or two.—A. I would have to leave that up to the economists to determine what products could be handled most effectively.

Q. Well then, let me put it another way: do you think it would be advisable to encourage resources utilization in order to overproduce perishables?—A. You do not want to overproduce any particular line of commodity at the expense of others; but the critical factor would be not only what the market could bear, which has reference to this business of overproduction. The main factor would be the optimum utilization of all resources. We mentioned this before. Certain lands are being concentrated in the production of certain types of grain when actually they should be in certain other lines. And the factor which should have prime consideration should be the optimum utilization of resources.

Q. There is another point, the optimum utilization of resources. Do you mean to say that because you can produce, let us say, more lettuce, cabbage, or carrots than something else, you ought to do so, even if the market will not take care of the cost of your production and even if the stuff will perish in a short length of time?—A. I think we could settle this issue by saying that the area which we considered here, by and large, does produce things which I consider to be more stable than lettuce.

Q. Were you not suggesting that part of it should be converted to the production of something which might not be so stable?—A. That is getting along a little different line of thinking, but it would fit into this question. You have been discussing this and I was hoping the question would come up on movement because some of those farms are going to go out of production. We might as well be frank about it; and certain farmers are going to be forced off their farms. I think that is a continuous process; and other farmers are going to have to be moved.

Now there are several ways of doing it and one is to let them move themselves. But there are various types of policy which may be advanced to assist them in movement. And there are various arguments to be brought to bear on a specific case. But there is one business, this lettuce business, which brings to my mind the thought that in the future we anticipate that the population of Canada will continue to increase, and that in turn will increase your domestic market. Now, when you do that, you are going to have to increase the amount or productivity of your soil resources in certain commodities which may lead you into intensive agriculture where it is possible.

These schemes, of course, are slow, but they are going on continuously. I envisage, for instance, where the agricultural development bank could apply is where you have the introduction of a new area; let us say it is an irrigation area; then the chances become very clear, that is, to withdraw a certain number of individuals from the farms where there is a hazardous area of production and to assist them into areas where they may produce something, as you said, in the line of lettuce. But what the situation will be by then I cannot say because I do not see any vast irrigation scheme in sight.

Mr. MACDONNELL: The Saskatchewan dam is in sight, is it not?

The WITNESS: Well, it has been in sight for quite a few years, and I suppose if any of us are around here by the year 2,000—

By Mr. Hellyer:

Q. That is what he means; that they will buy small holdings in the Saskatchewan irrigation area.

The CHAIRMAN: There are five more members on my list and we would like to finish by 1.00 o'clock. Please get down to the kernel of the presentation.

The WITNESS: I was quite serious in my reply, Mr. Chairman.

The CHAIRMAN: Mr. Huffman?

By Mr. Huffman:

Q. Mr. Chairman, just following the last question, on page 6, speaking of the challenge, you say:

No more geographic frontiers are left to be conquered. Do you feel at this time that the borrower will not be pushed back and that greater acreages will not be brought into production?—A. Perhaps the statement should not have been so all-inclusive because there are always some areas which will be included but they are negligible in comparison to the expansion of the west, where millions of acres came into use. They are the fringe areas.

Q. I remember Mr. Churchill speaking about the Carrot river project where there are vast acreages which can be brought under production if certain projects are carried out.—A. You would have fewer numbers of acres in comparison to the period we are speaking of, 1910 to 1913.

The CHAIRMAN: 1909 to 1914.

The WITNESS: Yes, as compared to Mr. Churchill's Carrot river or the Peace river, which is another one.

By Mr. Huffman:

Q. Turning now to your recommendations and following the line which Mr. Henderson was speaking of, in No. 6 you say:

The borrower's application should be unanimously approved by loan committee and directors; a report to that effect then sent to the development bank which would grant the loan.

A. Yes.

Q. Now, in your plan the local association endorses the member's note for the development bank?—A. Yes.

Q. Is there any personal liability connected with this proposal?—A. Yes.

Q. If there was personal liability and you had a farm, and with a mutual organization of ten members, I am almost certain that if those people are reliable people, then the bank would take anything of this nature. Would that not be true?

Mr. JOHNSTON (*Bow River*): Would you take it for a long term?

Mr. HUFFMAN: But this would be supported by ten other people.

The CHAIRMAN: Let the witness answer the question.

The WITNESS: Well, I guess that is the answer; the long-range nature of the project is the deciding factor.

By Mr. Huffman:

Q. But otherwise the security, independently, would be suitable to any loaning institution with ten?—A. Yes, that would be in a position to lend on such long-term credit, yes.

Q. Then turning to the following page, page 2 of the recommendations, I am interested in this: you are speaking of the forward pricing system?—A. Yes.

Q. Would the organization have to control the major portion of the commodities in order successfully to practise a forward pricing system?—A. I would not be prepared to answer that extensively. I suspect that you would

have a situation where the commodity would be involved and they would have to assume certain responsibilities along that line. You are, of course, assuming that you run the risk of piling up surpluses, I presume.

Q. No. I would be more concerned with the fact that if your organization did not have control of, let us say, 90 per cent, or practically the whole control of commodity, you would be in difficulty by a forward pricing system?—A. Yes, yet it is the same thing: it would be sold by the same direction, would it not?

Q. Would it not mean control of all commodities, if you were to practise a forward pricing system successfully?—A. Yes, I think I would agree with you. I do not see any other way to put it into effect and have it effective unless you did control the major supplies.

Q. Would this apply to all commodities?—A. It could be, of course, if the system were extended over any commodity, it would certainly apply.

Mr. FRASER (*Peterborough*): Would it appeal to a dairy farm?

By Mr. Huffman:

Q. If the answer is this: do you suggest there that you control operations of that order?—A. Well, the type of organization that the farm unions are most concerned with is of course marketing boards, and I would assume there would be an extension, if necessary, of the jurisdiction of the marketing boards over the commodity in question.

Q. But the marketing boards are mostly under provincial jurisdiction, are they not?—A. It is a joint one.

Q. But does not that only apply to about three commodities?—A. At the present time, yes.

Q. So if this was an over-all application it would only apply in the provinces outside of wheat and apples and so on?—A. To answer that, of course, would require further research. You would have to determine what basic factors, or what would be the basic factors in setting up such a proposition in order that the forward pricing system could be established, and I would not be prepared to go further than that.

Q. I have one other question: does the forward pricing system invariably become a price which will eliminate competitive bidding, unless a real shortage of the commodity exists?—A. I would like to have some further explanation of the question.

Q. In other words, if you should "forward price" a commodity?—A. Yes.

Q. Does that not tend to lend to those who produce that commodity a view of what is considered a price for it?—A. Well, Mr. Chairman, I do not quite know how to evaluate the question. In my own thinking it is something like this: that you say that the forward pricing system determines the approximate consumption of the market which I understand can be done with reasonable accuracy within a given year. I think the same type of production scheme comes into effect. But I have not any particular ideas as to how it should be done. I think in terms of incentive and more compulsion, but some type of productive scheme must come into effect, otherwise you end up with the recurrence, of course, of something like the agricultural situation which is now recurring in the United States, as to competitive bidding. And as to the commodities we were considering here, they were mainly export commodities, so you would have competition between nations. But if you are thinking of competitive bidding by local markets—were you thinking of that?

Q. It could apply to nations, as well?—A. Well, the competitive bidding would be on the basis of them paying the price they could just like the Wheat Board is doing for Canada now, and you have to make your shifts and adjustments in proportion to what the market can carry.

Q. One further question: if you do not have control of the commodity, and if prices fall below your forward pricing, would those who sold their production

at the appreciated price be obliged to share their profit with the few shareholders, or with those who had not sold or who had not had a chance to sell?—A. you are thinking that if you had sold your commodity, or a certain proportion of it was sold, and then the price should fall the following year?

Q. Or it could apply to the product of that year?—A. Within the year it fell, and to the extent that a certain group of people had not sold, would you be obliged to share? Well, I would say, roughly speaking, yes, in much the same manner in which the Wheat Board functions now. I do not see any way to get around that one. I mean, if you are in it, then you are in it.

Q. In other words, you would have to have control of the commodity to make it operate under this plan?—A. I thought I indicated that. I do not see how you could have it unless you exercised some control.

The CHAIRMAN: Mr. Philpott?

By Mr. Philpott:

Q. I have one or two questions, Mr. Chairman. Might I say that I think your brief is a very able one and that your presentation is a very able presentation.—A. Thank you.

Q. But I am just a bit puzzled at the exact relationship of this brief to our job here, which is the ten-year revision of the Bank Act. What does it come down to as far as we are concerned, apart from the setting up of this agricultural development bank?—A. Well, Mr. Chairman, for the information of the members I thought that I had clarified the matter by writing to the committee and indicating that we were considering these particular loan and credit facilities and asked if it would be in order to have it presented. The answer we got was that the committee would be in a position to consider it.

Q. I am not criticizing the presentation, because I think it is a very valuable one, but do you have any specific complaints with the Bank Act as it stands now?—A. I think that the brief is the complaint, is it not?

Q. Well, there are no other complaints in more specific and concrete terms?—A. I think, Mr. Philpott, for your clarification that we would say this: that in terms of short-term credit the banks are doing an invaluable service; but in intermediate and long term credit I am not quite so sure. We may be running into some degree of difficulty there. There have been no complaints, so far as I know, between the farmers and the bankers. There is a happy relationship there. I think the banks are doing a good job in there, but both farmers and bankers may be becoming inflexible there, I do not know.

In view of the fact that when you take a loan on feed you have to feed the feed, and you do not know what your position will be for the banker to recover his debt; the famous section is 88, is it not?

The CHAIRMAN: It is section 88, that is right.

The WITNESS: I do not see any way to get around that. However, the farmers and the bankers are perhaps flexible there but in terms of long-term credit there is no machinery set up, as far as I know. Does that qualify it?

By Mr. Philpott:

Q. Yes. I was not asking my question by way of criticism because I think this is a most valuable brief.

The CHAIRMAN: Mr. Cameron?

By Mr. Cameron:

Q. I wonder if you perhaps could give us a little more information with regard to what you envisage as the eventual functions of this federal agricultural development bank? Do you envisage it as performing the functions that

are now performed by the commercial or chartered banks?—A. There may be, or there will be some competition between any intermediate credit, particularly but no, not talking from the standpoint of the commercial banks.

Q. I had this in mind: I was not considering the matter of competition. Were you considering it developing into a bank which performs a part of the banking function which is now performed by the chartered banks, that of the creation, or the so-called creation and destruction of credit? That is the process that goes on?—A. Well, of course, if they do compete in certain avenues there is always the possibility it may displace commercial banks, but the commercial banks may offer enough competition that it may not.

Q. That was not really my question.

The CHAIRMAN: I do not think there is any profit to be gained in following that line. The witness is really a farmer and a good one, he is not a banker.

The WITNESS: You could tie me up on bank procedure any time you like.

By Mr. Cameron:

Q. What interested me, Mr. Chairman, was this: Evidently your plan is based to a large extent on the experience of the credit unions?—A. I would think so.

Q. I might tell you that I myself am a member of the credit union so I am not asking these questions in a unfriendly way, but you have a footnote which almost seems to suggest that your idea is that farm land associations will be, wherever possible, credit unions?—A. They may be credit unions or they may take some other type of form. There are some areas of the world that have a type of credit similar to this, and I do not think the associations are classed as credit unions, but what the differences between the two bodies are I could not quite say. However, from my thinking, by and large, I wanted to have it this way. I would not think it fair to set up any type of association or development bank that would impair the operations of credit unions in their particular field. It would offer competition to credit unions in the same way that it would offer competition to commercial banks.

Q. And I notice in paragraph 2 of your recommendation you do envisage the possibility of the revolving fund which you are asking the federal treasury to set up and gradually retired by earning and by virtue of the fact that farm loan associations would subscribe to stock in amounts equal to 5 per cent of loans?—A. Yes.

Q. Does that actually envisage the eventual development of what we might call the cooperative bank owned by the agricultural community?—A. It could be but I do not envisage that as the absolute goal.

Q. I just wondered how to fit it into the general picture of credit institutions in the country. Is it to continue as a government department?—A. It could be.

Q. Or is it to become a cooperative enterprise of the agricultural community?—A. I would not be prepared to answer. It would depend on the development and on economic trends in general.

The CHAIRMAN: Mr. Applewhaite.

By Mr. Applewhaite:

Q. Mr. Turnbull, I may have missed one of the steps here in your recommendation where you speak of setting up farm loan institutions. The membership under farm loan associations would be entirely borrowers, and those who wish to become borrowers, is that it?—A. Yes, I see your point.

Q. Then the lending committee which you are setting up and which is to consist of three members would be a committee made up of the members of the farm loan association?—A. Yes.

Q. So that actually you say the membership requirements would be a farmer or someone about to become a farmer; a borrower, or someone about to become a borrower and capable of subscribing in cash—I presume 5 per cent of the loan?—A. Yes.

Q. And the personnel of your loan lending committee of three would be three of these potential borrowers?—A. That is right.

Q. In that case—this is critical—do you think that it is sound? You are going to have a committee of three sitting either on their own loans or on the loans of their friends who in turn are going to sit on theirs. In other words, you are deciding the credit worthiness of a borrower entirely on the word of the borrowers themselves, are you not?—A. I see the question, Mr. Chairman. Now, perhaps the brief is short on that point. I would agree with Mr. Applewhaite that this is not necessarily sound, however, I would anticipate that in any such scheme which would include such long-range objectives as soil conservation, etcetera, that you would have to have technical assistance in the planning of very definite operations, and I would also envisage you would have something which would be the equivalent of an inspector, to make sure from the bank's point of view, that these people are sound farmers, as one gentleman pointed out, and have the proper training, etcetera, and stand a reasonable chance of making good.

Q. That practically comes to my next question. In paragraph 6 you say that a report to that effect would have been sent to the development bank which would grant the loan. Under your setup, would the development bank have the right to refuse the loan even if it had the unanimous endorsement of the association?—A. I would go along with you there, and would add something to it, that it would be subject to the approval or inspection or something along the line so as to not make the scheme vulnerable.

Q. I am not trying to put words in your mouth, but I am trying to save time. You say that you anticipate that 95 per cent of your loans would be paid off without default, hence 5 per cent guarantee should be sufficient to take care of the loss?—A. Yes.

Q. Would your farm loans association have any expense or overhead involved?—A. Your point there would be that the 5 per cent would not take care of it.

Q. If so, what provision are you making for income?—A. It could be taken care of by assessing the local association.

Q. Your membership might assess themselves?—A. Yes.

Q. And it might become subject to a further 5 per cent?—A. Yes.

Q. On page 5 of your general brief there is a sentence that I frankly do not understand. Under the heading of criteria for policy you say: "There can be no privilege or advantage for any single group that cannot be supported by any other. Would you explain that?—A. The thought there is this: In the problems of movements of social groups—I am thinking of farm groups in particular—having been squeezed out of some particular sector of their agricultural economy—it should not be "squeezed" but let us say "through competition they are forced to move." But if these individuals are going to be moved by some scheme then the rest of society is going to have to agree that it is a desirable thing. That is, your wage earner in the cities, for example. Now, that is what is meant by that.

Q. I am sorry, but I still do not understand. Do you mean that the group is going to be supported by another group or that the privilege or advantage will be supported?—A. If the advantages that are accruing to agriculture have to be borne by society in general, society will have to approve and condone it, and demonstrate that they think it is desirable through the application of better conservation methods, etcetera.

Q. This is my dumb morning; I still do not understand the import of the words "supported by any other."—A. Put it this way, then. If your agricultural group, for instance, in a period of depression, where you have to have supplementary payments as envisaged in the recommendations, which would have to be made by the federal treasury; this then would have to be recognized as being a desirable thing by the rest of Canada as a whole, and they would have to be in a position where they would support it.

Q. Do you mean this: that any privilege or assistance which may be accorded to agriculture would have to be for the benefit of them and with the approval of the economy as a whole?—A. Yes, it would have to be sufficiently broad, so as to be to the advantage of the economy as a whole.

The CHAIRMAN: Mr. Macdonnell?

By Mr. Macdonnell:

Q. I was very interested in your brief, which seems to suggest that the present credit facilities are working against the family farm, although I noted what Mr. Quelch had to say about the size of the farm. That was interesting. But do you feel that at the present time it is difficult for a farmer to borrow? Take your own experience as a farmer. Have you found it difficult to borrow? I have been under the impression that with all the other facilities, and with the Canadian Farm Loan Board, there was probably plenty of facilities for borrowing.—A. Admittedly, within certain limits; I would agree with you there; but when you take, for instance, the farmer, who has certain types of enterprise which should be changed. It is very difficult, for a bank to establish a credit for this transitory period. And along those lines our credit facilities fall short.

Q. You have been using the word "bank" constantly. Now let me point out a phrase on page 8, where you say:

The attempt to finance agriculture by industrial and commercial facilities has assisted soil mining, erosion and insecure tenure.

What do you mean by "industrial and commercial facilities"?—A. As I understand it, the present type of credit, through our chartered banks, grew out of industrial and commercial types of credit.

Q. Are you suggesting that the only type of credit available for western Canada has been bank credit?—A. No, I am not.

Q. But in your argument here you seem constantly to come back to it?—A. Private credit, of course, provides creditors with different objectives than does credit extended by the nation.

Q. I come back to my point: we are wondering—let me ask you whether there is credit available?—A. The answer is that it is.

Q. On fair terms?—A. Let me answer it this way: if a farmer wants to borrow money from the existing line of credit, he has to pay a rate which is greater than he can earn.

Q. Would you mind saying that again, please?—A. He has to pay at a rate which is greater than he can earn on invested capital. For instance, if he borrows capital and puts it into land, or machinery, and so on, his long-term earnings would be between $3\frac{1}{2}$ and $4\frac{1}{2}$ per cent; but when he borrows the money he has to pay a rate greater than the rate which he can earn. Now where is he going to make up the difference? He will make it up on depreciation. He will not be able to replace the full amount of depreciation on the machines; he will not be able to replace the full amount of depreciation on the soil, and by and large those are the two factors by which he makes up the difference. And if you have that type of credit, there is only one thing that will happen, and it is that your sizes of units will continue to modify until they will be able to earn the rate at which the credit is extended.

It all depends on your objective. If the objective is to establish an agriculture that can earn at commercial rate of interest, let things exist as they are. But if you have other considerations you will rely on them for the difference.

Mr. HELLYER: You mean rates of interest?

The WITNESS: Rates of interest; thank you.

By Mr. Macdonnell:

Q. I suspect you of being an economist.—A. No, Mr. Macdonnell, I am a farmer.

Q. Well then, let us say a farmer-economist because you have given an answer which goes into some very abstruse theoretical calculation in which I am not going to attempt to follow you. I am afraid that my approach to it is rather a naive one, but is it or is it not true that in the last ten years the farmers have been able to pay off many tens of millions of dollars of debt?—A. Yes, that is quite true, that is, in the last decade.

Q. Yes, I realize it has been favourable; nevertheless I do not believe all the stories about farmers getting up and going off to California or Florida to spend the winter.—A. Thank you.

Q. Although I understand that perhaps some do.

The CHAIRMAN: Yes, and some do not.

By Mr. Macdonnell:

Q. But I ask you to look at what seems to be a very practical fact, namely, that the farmers are in a stronger position today than they were ten years ago. Would you agree with that?—A. No.

Q. Then how would you put it, if you will not agree with me? Can we not say that their debts have been very greatly reduced?—A. Yes.

Q. Would you say they are not in a stronger position because you fear the future?—A. Yes.

Q. You say they fear the future; why?—A. Well, the point is this: that if you could take an analysis of the farmers' position today you would find that they are not meeting their full cost of production. Now, that is an easy one.

Q. I must confess to you that I have always thought it was an extraordinarily difficult proposition to find, at any given moment, what the cost is, because it seems to me that if you have a couple of days of bad weather just before the crop comes in and your "bushelage" is cut in half, then your cost becomes double, does it not?—A. Let us put it this way: admittedly you cannot write up all the multiples.

Q. That is my only excuse for asking it. All you can do is to take a man's rough and ready position over the years, and judge from that what he is getting through the enterprise.

Mr. QUELCH: It has been said that farm debt has gone down, but is it not true that since 1948 farm debt has gone up by 25 per cent?

Mr. MACDONNELL: I said in the last ten years. I know something about farm debt twelve or fifteen years ago and I thought I tried to say that over that period it had gone down very greatly.

Mr. QUELCH: But over the past five years it has gone up by 25 per cent.

By Mr. Macdonnell:

Q. I accept your correction as to the last few years.—A. I have the same general criterion as Mr. Macdonnell, and that is, is he getting himself into a better position? Is he relieving himself of debt? My contention is that he is not. He has paid off certain cash obligations, but he has done it at the expense of incurring others.

Q. Yet you would make it still easier for him to get into debt?—A. No.

Q. I mean still easier to borrow. I think he should have adequate credit, but do you think, as a farmer, you have had difficulty in borrowing money?—A. With the line of credit existing today which a farmer can utilize to improve his farm, but not along the line of soil conservation.

Q. You have insurance companies and other lending institutions which are ready to lend, and you have the banks who are always ready to lend to creditworthy risks, and I would imagine they would be ready to help a creditworthy risk to improve his operations?—A. No.

Q. Am I wrong there? Are the banks not ready to lend?—A. Of course they are ready to lend providing, as you say, that the man is creditworthy.

Q. Well, you would not want them to lend to anyone else, would you?—A. The point is this: the banker's position is such that that is exactly the line he has to take. But how are you going to improve the general position of agriculture when you have short-term creditworthy risk as sole criterion, or when you have a farmer who has a farm with 30 per cent of the soil resources depleted, and with depreciation on his machines, and with declining fertility that he must restore? Then he becomes not a creditworthy citizen, therefore he is not eligible to get bank credit. And as long as you leave him there, he continues to depreciate the farm and the machines and so on.

Q. Wait a minute, you have overlooked the fact—

Mr. TUCKER: Are there any others on the list, Mr. Chairman? I want to deal with a few of the points in the recommendations and it will take me about ten minutes.

The CHAIRMAN: Mr. Weaver is ahead of you, Mr. Tucker.

Mr. MACDONNELL: Why do we have to stop now?

The CHAIRMAN: I do not know. We could go on for a few minutes if your questions are brief.

Mr. MACDONNELL: As you know, Mr. Chairman, I am always brief!

The CHAIRMAN: I think we should adjourn and begin again at 3.30 this afternoon.

AFTERNOON SESSION

3.30 p.m.

The CHAIRMAN: Gentlemen, I see a quorum.

Mr. Olaf Turnbull, Member of the Interprovincial Farm Union Council, called:

The CHAIRMAN: Mr. Macdonnell?

By Mr. Macdonnell:

Q. Mr. Turnbull, I had asked you just before we adjourned about whether you, in your experience, have found that loans were not available and I think you said no, that you had not found that; but you may now want to qualify your answer; and then we got to the question of the creditworthiness of borrowers. Would you mind taking it up from that point?—A. As I recall it, your question ran something like this: surely I would not want non-creditworthy people to have credit; was that it?

Q. Yes, and I was going to add: if this is a business proposal. May I interject this: I fully agree with you as to the desirability of a family farm. That seems to me very desirable. I wonder if that is to be recognized as

socially desirable it should be promoted through credit unions or in some other way, or whether it should come within the ambit of a new agricultural development bank which presumably is a business institution. I confess that is rather a long question.—A. The answer to the first one is this: I would favour, of course, the agricultural development bank. I would think most likely that it would resolve itself around a structure somewhat similar to credit unions. You asked the question formerly about the creditworthiness. That position is difficult to attain. I can only assume that because of the increase in credit unions, for instance, that certain individuals had been formerly regarded as not being creditworthy within the scope and jurisdiction of the commercial banks. Therefore, if you take that line of thinking, I expect that some people may not be considered as creditworthy by some other type of criteria, or if in actual fact they can be put on a better basis by proper types of credit or supplementary types.

Q. Let us say “supplementary type of credit”?—A. Yes.

Q. But I still raise with you the question about the establishment of an entirely new agricultural bank in addition to the Canadian Farm Loan Board, in addition to the banks which you admit stand ready to loan, in addition to the insurance companies and the loan and trust companies, and in addition to the credit unions who, as I understand it, bring in some of the personal considerations which you think are desirable. I leave that question with you as to whether there is a need for a new institution to go into all that. Finally, I have one further question.—A. It may be that some consideration should be given to the multiplicity, as you point out, of different methods of extending credit. Also there is another one, the type of credit that is being extended to new farmers in Ontario. That is yet another.

Q. I have that one right here and I was going to ask you about it.—A. Sometimes I wonder whether it would not be better to bring in some uniform type of credit that would get away from duplication and repetition and which would involve the dominion government and the provincial governments and local individuals so that you would have some joint responsibility there between the three levels.

By Mr. Macdonnell:

Q. Your idea was that of trying to get the various governments together at the three levels, but it is difficult.—A. I suppose it is.

Q. Now I would like to draw to your attention the rather searching requirements under the Ontario Act as to those who may be entitled to benefit and my last question is this—

Mr. BENIDICKSON: What are they?

The CHAIRMAN: They are in the Act.

Mr. MACDONNELL: They are in section 11 of the Act, which is chapter 45 of the 1952 Ontario statutes.

By Mr. Macdonnell:

Q. There is a statement on page 7 of your brief which puzzles me a lot and I would like to ask you about this. You say:

Private credit facilities are not designed to establish and maintain the family-sized farm. Functioning on a ‘business basis’, they have assisted in the exploitation of human and land resources and the breaking down of the tenurial system to that of tenancy.

I find myself surprised by that. I have known something about the loan business in the west and I think I am entitled to say that none of the lending institutions in the west wanted to come into possession of the land. All they wanted was to have a borrower who could carry out his obligation, and I

believe that was their record with scarcely an exception is that of good lenders and that it would show—that, not from altruistic motives but from commonsense business motives—they did everything in their power to maintain the farmer on the land, knowing that that was not only in his interest but in their own interests as well.—A. The question is what?

Q. The question is this: What do you mean by saying that “functioning on a business basis they have assisted in the exploitation of human and land resources and the breaking down of the tenurial system to that of tenancy.”—A. You question whether that is so?

Q. Yes.—A. I would submit any study of tenurial systems and I think that the work done by Schickele and the work done by Heady, who are two particularly good authorities, that where you have credit—and I agree to all that you have said—that the private credit institutions—

The CHAIRMAN: He will now qualify his agreement.

The WITNESS: These credit facilities did not want to assist in exploitation. But the fact is that it does happen, and that is in particular, I think, due to the fact that the expansion of credit has been on a short-run level in the main. With some, of course, in the intermediate run where you have farm improvement loans and where you have credit extended in that manner it means, of necessity, that the individual farmer must focus his attention on something which will give him a cash return, something that has an annual scope in it. It is a particular characteristic of those institutions—I suppose it is common—I believe they are not in a position to extend the type of credit that this brief envisages.

Q. Am I correct in understanding that the implication of this, when you say “the breaking down of the tenurial system to that of tenancy” is that you mean there has been a great deal of foreclosures?—A. No, I do not think I meant that.

Q. How did they operate to break it down, then?—A. When I say that they have assisted, I mean that other forces have also assisted. That is the difference. This business of earnings on capital investment is, I suppose, at the bottom of it. I made the statement that long-term earnings on investment capital in agriculture would be less than the amount paid for that capital.

Q. What do you mean by “long-term”? How long?—A. I would say that it varies from time to time; but suppose you take it for a ten-year period and examine it for a ten-year period. I think you could start off from the time that the west was settled until now and you would find that by and large agriculture cannot earn between 5 and 8 per cent on its invested capital.

Q. Surely you are not going to tell us that the cities in the west and the wealth produced worth hundreds of millions or even billions, the billions of dollars in the west have been built up out of losses all these years? They are there and you can see them.—A. Of course there are losses, and these losses occur.

The CHAIRMAN: Would you mind repeating your question, Mr. Macdonnell?

The WITNESS: I understand the question.

By Mr. Macdonnell:

Q. I say surely the hundreds of millions and perhaps billions of dollars worth of assets in the west have not been built out of gifts from the east?

The CHAIRMAN: Now you are changing your question.

By Mr. Macdonnell:

Q. Do you mean to say that those assets have been made out of losses?—A. Look, Mr. Macdonnell, you have two points of view; you have your long-run and your short-run point of view. In the short run, agriculture can repay, but not in the long run.

Q. We have got 60 and 70 years.—A. In the long run what have you done? You have depopulated the west. I do not mean you, personally, Mr. Macdonnell; but that is the situation. That would be giving Mr. Macdonnell greater authority that he has.

Q. Well, I populated it to the extent of one. I have a son living there.—A. Just one?

The CHAIRMAN: Let us get on.

The WITNESS: But that is the situation; the west has been depopulated by losses.

By Mr. Macdonnell:

Q. Again I must ask you what you mean by saying "the west has been depopulated"?—A. May I finish?

The CHAIRMAN: Surely.

The WITNESS: I mean that the soil resources have been depleted by 30 per cent. You have had soil erosion to a great extent. Those two ideas are involved together plus the fact that if you could examine the situation of farmers today to find out whether they are actually on a sound business basis, as you may imply there and you would find, I suspect, that many of them simply do not lay aside sufficient resources to meet all their fixed costs which include depreciation on buildings, depreciation on machines with stabilization of all the soil resources, and I think that is where your losses show up.

By Mr. Macdonnell:

Q. I do not believe there is any man living, not even you, who can make that calculation?—A. Exactly.

Q. And carry conviction with it. This morning I gave you what I admit was a naive view when I said that over the years farmers have decreased their debts (I accepted Mr. Quelch's correction as to the last few years; that is partly because they have been so prosperous, and partly by reason of a great deal of money for new development) but it seems to me that when people repay their debts over a period, and when their assets have increased greatly and when they are obviously able to spend money at a great rate—and a great many of them have good holidays and motor cars, it is awfully hard to believe or to understand that it represents a backward movement. Maybe we will wake up in twenty years' time and find that we were all wrong; but it is awfully hard to see it or believe it now.—A. I cannot follow you in your line of thinking.

The CHAIRMAN: That is Mr. Macdonnell's view. It is not a question. Now, Mr. Weaver?

By Mr. Weaver:

Q. I have a few unrelated questions to ask of Mr. Turnbull. You are an agriculturist, Mr. Turnbull, and you can evaluate better than anybody else the principle of growth with regard not only to agricultural products but with regard to ideas and policies. Is that not so?

The CHAIRMAN: Give him a question.

By Mr. Weaver:

Q. The growth of ideas and the growth of policies?—A. You ask me if I like the growth of policies? Yes, I like to see policies grow.

Q. And that also applies to our present credit facilities; they have not always been as they are now?—A. What is the question?

Q. That is the question.

The CHAIRMAN: What is the question?

By Mr. Weaver:

Q. You agree that they have not always been as they are now, and that there has been growth in our credit facilities?—A. Well, modification; I question the word “growth”, because it is a relative factor.

The CHAIRMAN: “Growth” is a farm term, is it not?

By Mr. Weaver:

Q. Did they not grow?—A. That is a special type of question; they changed, if you are willing to interpret “changed” as growth; I would say yes.

Mr. QUELCH: Some died.

The WITNESS: Yes, some died, but they evolved, at any rate.

By Mr. Weaver:

Q. Are you agreed that farm improvement loans were something that was new in the last ten years?—A. Yes.

Q. Following that analogy, is it your contention that our present credit facilities are full-grown and not capable of further growth?—A. I would say this in reply to the question; that was not the situation for certain mortgage companies which loaned funds to us to accomplish certain objectives. You have commercial lines of credit. I presume, that with the growth of credit unions there must have been a failing or a shortening there or they would not have grown. I seem to recall some excerpt from Mr. Atkinson, I believe, in a former hearing that this type of long-term credit is not favoured by banking institutions, but I would stand corrected on that. So, therefore, not to use your terms, we are still eligible for more growth, I would presume.

Q. But you feel that the growth has been inadequate; is that correct?—A. I feel that this particular phase of credit is not covered, yes.

Q. This morning in answer to a question from Mr. Applewhaite you revised your use of the word “squeeze” and replaced it by the words “as a result of competition.”—A. That was just as a courtesy to him. I prefer the word “squeeze.”

Q. In your organization; do you see no value in competition?—A. I do not believe that at any place I mentioned the desirability of doing away with competition. Let me put it this way: I thought that the question was a bit difficult to follow; there is always the problem of getting the best allocation of resources, and to that extent I feel it desirable not to put any industry or any group in a position where economic processes are shifted away from it; and if you care to interpret that as “competition”, it is all right.

Q. That is all.

The CHAIRMAN: Mr. Tucker?

By Mr. Tucker:

Q. You suggested in your evidence this morning that some other country or countries had used a similar system to that suggested in your brief; is that correct?—A. Let me put it this way: that in drawing up our conclusions we made certain studies of other countries, yes.

Q. Does any country use any system like this that you know of?—A. There are two countries that come to mind. We did some study and I am not saying that there is a direct relation between countries, but we did do some study about rural banks in New South Wales and some study with regard to the land banks in the United States of America, which were established in 1916, I believe, and we did some study along the line of the recommendations of the Credit Commission of 1913 in Saskatchewan. Now, to some extent this

may bear some similarity to the systems in operation in other countries but it was not by duplication on our part, although we may have been influenced in our thinking as a result of our studies.

Q. In these two cases you mentioned they have a system such as you suggest in your brief?—A. They have a type of long-term agricultural credit, yes.

Q. And with the system of financing it and so on, along the lines you have outlined in your brief?—A. You mean in terms?

Q. In terms such as you have on page 1 of your recommendations?—A. Of joint endorsation, et cetera?

Q. Joint endorsation and a basic first mortgage underwriting the whole thing?—A. Well, joint organization is used in some countries. It is also used with credit unions to some extent is it not?

Q. Yes, and what about the others?—A. I would not be prepared to answer that. I could not give you a definite answer.

Q. Well, I asked you that, Mr. Turnbull, because it seems to me it would be such a difficult matter to put it into operation, and I wondered if it had been tried in any other country of the world?—A. This plan specifically?

Q. Yes, the suggestion of a blanket mortgage. Knowing farmers as you do and as I do—their independent spirit, the suggestion that they would agree to a blanket mortgage underwriting a scheme like this, seems to me to be so doubtful that I wondered if you had found other countries in the world where it had been successfully tried?—A. Well, the only thing I could refer you to would be the land banks in the U.S.A., but I do not know what bearing that has with you as a committee.

Q. Do they have a system whereby the whole community gives a blanket mortgage to the extent of 75 per cent of the value of the land and 25 per cent of the improvements?—A. They do utilize some system of mortgages and they do utilize group participation. I am not sure what their percentage is.

Q. Well, I will come right down to my point. I am trying to find out what you had in mind on page 1, paragraph 2, where you provide that any loan made to a member of one of these local associations would be secured by a recorded first mortgage on the land within the district. I take it that what you had in mind there would be a blanket mortgage on all the land in the district up to the extent of 75 per cent?—A. No, that would only apply to the individuals who are subscribing to the loan, and not to every individual in the district.

Q. So that you do not mean "on the land within the district," you mean on the land owned by the members of the association?—A. Yes, those who are seeking the loan. Thank you, that is correct.

Q. As I understand it—and I am only trying to get at what you had in mind—the first purpose of the loan would be to buy agricultural land and livestock. Your idea is that you would get ten people to go together and in respect of each one who wanted to borrow money to buy land and livestock, the other members of the association would pledge their land so he could buy land and livestock. Is that the idea that you have there?—A. In the first place, I do not consider that as a prime objective. In the phrasing of your question you expressed that in such a manner as to convey the impression that it is the prime objective. It is one of the objectives.

Q. It is one of the main things? In a community where a couple of young people want to get started—I take it that is why you put it as the first purpose of these loans on page 2—to buy agricultural land, equipment, fertilizer and livestock, do I understand you to suggest you think it would be a feasible

proposition that you should set up a system whereby some young man could go into a district and say he wanted to borrow money to buy land and buy equipment and livestock and that you could get nine of his neighbours to sign a blanket mortgage on their farms so he could buy that land, equipment and livestock?—A. Well, I do not think, Mr. Chairman and Mr. Tucker, that I anticipated a stranger coming into a community and getting the residents in the community to agree to that proposition. I would assume that the individuals necessary to make this scheme work would have to know the individual seeking the loan. I also assume that each one of them would be interested in getting a certain line of credit and they would have to assume some responsibility, I believe.

Q. All right, then. I simply want to get at what you had in mind. You had in mind that if ten people in a community wanted to borrow money to purchase land, machinery, livestock or equipment, that if they got together they would all give a joint mortgage for the total amount of their individual loans to the extent of 75 per cent of the assessed value of their land and 20 per cent of the improvements. Knowing farmers as we do, do you think a plan like that would be feasible? Can you imagine in your own district being able to set up a scheme like that where you would go in with nine other people and pledge your land to repay the loans of nine other people to buy more land and equipment?—A. As I said before, I do not anticipate this as the prime objective. Each one of the members in the association would have specific objectives for which he needs capital. A young family man might want to buy land. An older family man may want to put his farm in a better operating position. Another man might want to make improvements on his house. As such, you could get a group together where there is a sufficient common interest whereby this could be achieved.

Q. Take any community in Saskatchewan, and assuming that credit is needed to enable young farmers to get a start, as you suggested is the case, and as I agree it is, what I am getting at is whether you think this is a feasible scheme to provide that credit? It must work to be of any use. As I understand it, what you are actually suggesting to us is that if you had ten people who wanted money for different purposes that you could persuade them to enter into a scheme whereby each one of them would pledge his land and his improvements to secure the borrowings of nine of his neighbours by a joint and blanket mortgage on his land?—A. I cannot speak on behalf of the farmers; they would have to speak for themselves.

Q. But you are here to speak on behalf of the farmers and to say what you think they would stand for, and personally I do not think they would stand for that at all. I am asking you if you think they would?—A. Further to that I can only say this: as far as the land banks operations in the United States of America are concerned they do use some scheme of joint endorsement and a type of mortgage such as I have described and it seems to work. Judging from that I suspect that if farmers can agree to it in the United States, that perhaps the farmers of Saskatchewan and Ontario and elsewhere in Canada could also. Having a common interest with regard to credit problems, if they find they cannot get the necessary type of credit from existing institutions they may consider this in a favourable light.

Q. So you actually think this is something which we should give our minds to rather than some improvement in a system such as we have in the Canadian Farm Board Loans Act and the Farm Improvement Loans Act? You think this is a sufficiently feasible scheme and sufficiently likely to make such an impact on the situation that it is really something which we should advocate?—A. I would not have come here if I did not, sir.

Q. I put it to you again. When you start out and tell your nine neighbours that the purpose of this plan is that each one of them will be able to borrow—and as I understand from you the basis would be that the loan committee which they would elect would recommend the loan and the only question would be whether there was sufficient security on the part of the development bank—that by putting themselves in the hands of this loan committee they would saddle their farms with paying off the debts of nine of their neighbours. I suggest to you you could not get that accepted in one community out of 500 in Saskatchewan or in any other part of Canada?—A. That is your personal opinion, Mr. Tucker. I am sorry I do not have statistics with me to the extent of land bank loans in the United States, but it does reach a considerable proportion and it is operative at the present time and it does follow a procedure somewhat similar to that which we have outlined. But further than that I could not give you any information other than opinions.

Q. But you think that your scheme is sufficiently attractive that farmers would be willing to enter into it and make it worth while?—A. I should hope so.

Q. I see. I suggest this plan has never been adopted by the Farmers' Union as a body, has it?—A. You mean a detailed plan as such?

Q. As you presented it to us?—A. No, in actual fact I cannot say I have personally submitted this to every local of the Saskatchewan Farmers' Union. All I can say is that it has passed through the Interprovincial Farm Union Council, and as such they have given sanction to it.

Q. The other question that I am going to ask you is this: I understood that you would have this agricultural development bank administer loans to cooperatives and marketing boards. That is your suggestion on page 2—A. Yes.

Q. Now, part of the plan would be to engage in a program of subsidization up to as high an extent as 80 per cent of the market value in cases of depression?—A. Right.

Q. That of course would involve the payment out of a great deal of money by this development bank during a period in any way like the thirties, for instance, would it not?—A. I suppose so.

Q. You say that the agricultural development bank would be responsible to make sure that rates to boards and cooperatives are kept to a point of nominal profit. If they were to be saddled with an extensive plan of subsidization like that, what rates would they have to fix?—A. I do not assume they are going to be responsible for the subsidization. They will assist in the form of transferring profit if they become—I don't mean the term "abnormal"—well, other than what was decided as necessary on the part of the board. If they had a profit or reserve they could transfer, that could be utilized but subsidization was never intended to be the responsibility of marketing boards or cooperatives.

Q. I am trying to get at what you had in mind. You say the farmers' union council has accepted this, and I am curious to know what they did accept. You say under a compensatory plan the board—and I take it that that is the board of the agricultural development bank?—A. That is correct, or the marketing board.

Q. We are speaking here of the federal agricultural development bank which would administer loans to cooperatives and regional or provincial marketing boards, and you go on to say that under a compensatory plan the board would pay the market price, plus a fixed percentage of 65, 75 or 80 per cent as decided, of depression prices?—A. Yes.

Q. In other words, the farmers would get the market price and the agricultural development board would pay this subsidy?—A. Right.

Q. Now then, what I do not understand is your next paragraph where you say that the agricultural development bank would be responsible to make sure that the rates of boards and cooperatives are kept to a point of nominal profit. Do you have in mind that they should charge a rate of interest that would protect them against those obligations you are putting on them?—A. To protect them?

Q. The agricultural development bank that is going to finance this program of subsidizing the farmer in the event of a depression; I am trying to get at what you had in mind?—A. I thought that I had made it clear; but the point is this: the agricultural development bank is for the accepted purpose of providing particularly long-run type of credit, particularly to a group of individuals who simply cannot qualify for the existing line of credit to accomplish objectives that we have outlined. When you get into a period of depression that is a stop loss proposition where you endeavour to protect the agricultural enterprise from going completely into disorganization and deterioration. I assume that we would not be plagued by too many depressions and it would be a stop gap proposition in the short run. I at least do not envisage, but perhaps you do, that agriculture is going to be depressed for a long period of time and that it will cost millions of dollars; but this is a short-run scheme to enable agriculture to get over the hump and maintain its position.

Q. You think it would be better to put this obligation on the proposed bank which is going to provide the credit rather than leave it to the government to look after, through subsidy to protect the industry; you think it should be put on the back of the institution which is set up to supply credit. Did your board actually endorse that idea?—A. The type of institution is this: it is not as you envisage a bank of private individuals; it is a functioning bank that has at least governmental assistance to get started, and such assistance would be provided in the hope and assumption that it would get rolling and as time went along and if you ran into a period of depression, and as you say you saddle the banks or boards with obligations and they run out of finances, there is nothing new in boards and banks running into difficulty. They have done it before this and called upon governments to assist; and if a depression should become serious enough and prolonged enough, I assume that the boards and banks may have that problem again.

Q. Do you say that your board thought that the problem of providing credit for the purposes for which they wish to provide it was to be put on to institutions like this, and are you at the same time suggesting that they carry the burden of subsidization of carrying farmers in the event of depression. Did your board subscribe to that?—A. What are you after, farm union policy?

Q. I am wondering when you suggest a system of providing credit to farmers why you tie in with it a proposal that the bank should also provide subsidization in depression times.—A. Thank you. I think the reason we have not seen more development in the long-range type of credit is that the financial and economic future of agriculture has not been characterized by stability, and it is difficult to assess what is going to happen.

If you are going to set up a type of institution that is going to lend such money on long-range credit you are also going to have to tie in with it some type of scheme that can assist in stabilizing prices or you get in a position where you are in opposition to the manufacturer.

Q. Now a further question: if you have ten or more tied together and each one with his land liable for the debts of the others, then the question arises as to what happens if one of the members dies or becomes disabled or gets tired of working and decides to enjoy life and let the others pay the debts off; what do you do then?—A. Well, of course you still have your mortgages, do you not?

Q. It is the other nine I am thinking of.—A. You still have his assets.

Q. Yes, and you think that this scheme is better than a scheme whereby some form of guarantee or government credit is available to the individuals as an individual?—A. I am not clear on that as to what type of agricultural credit is available for long-term credit.

Q. The Farm Improvement Loans Act has as a basis the idea of giving a partial government guarantee of credit for individuals in the case of intermediate loans. I take it then that you think it is better to move in the direction of group loan obligations than towards some further extension of the idea of partial assistance in providing credit to individuals. I take it that is the difference between what you are suggesting and what has been suggested in the past?—A. The difference is this, that there is a group of individuals that simply have to provide some sort of joint security program. I think some consideration of some type of credit union would perhaps throw some light on that. I believe perhaps that there are a number of farmers right from coast to coast who are in a position where they cannot effectively utilize the credit that is normally extended through banking channels. You point out that the Farm Improvement Loans Act has been a step in assisting; well, it has done that, I am told. Perhaps you are in a position to give me an idea how far the government is prepared to go along that line and if they are interested in long-term credit and in affording loans to agriculture, by agricultural improvement loans.

Q. I was hoping that your organization would suggest some way in which you thought that the present system could be improved along the lines that it has already moved; but I take it that your organization feels that it is much better to suggest some system whereby you actually have some form of government assistance for credit to groups rather than to individuals. I take it that is what you have in mind?—A. I can only quote back to Mr. Atkinson, if he will permit me, and indicate that I gathered that the banks in general are not interested in long-term mortgage type of credit for these particular objectives, and this, sir, is our possible solution.

Q. Now then, there is nothing wrong with it if it can be properly set up, but if you are going to get ten people together like that and pledge their resources to protect each one, would they not have to have a pretty binding agreement between all of them that if one of them began to fall back on the traces and not pull his weight, there would be some means whereby the others could protect themselves. Such an agreement would mean that each individual would have to give up quite a bit of control over his farm and his operations to the Committee maintaining the whole set-up, wouldn't it?—A. I do not follow your question.

Q. If you have ten people going in on a scheme, and they are going to pledge their lands for loans to each individual, then, before any prudent man pooled his assets in an affair like that he would want to be sure that if one of them began to lie down on the job, something could be done about it. So the agreement would have to provide for the Committee taking over, if one of them began to renege on his part of the deal.—A. I thought we went over this ground before, that if an individual wanted to withdraw, the best you could have would be a mortgage and the assets.

Q. It would be somewhat like the cooperative farms where an individual might not want to withdraw; he might decide to enjoy life more, perhaps to spend more time in the beer parlour and let his friends do more of the work. Human nature being as it is, if you have an organization like this set-up all over the country you would have to have some form of organization whereby, if one member of the group began to be unfair to the rest, they as in the case of the cooperative farm could interfere to protect the remaining ones against the

one who was not doing his part, 'wouldn't you?—A. I have no particular suggestion to make along that line other than by using the group of ten and having joint security to hold that sort of thing down to a minimum. I suspect myself that the people in Canada are not going to betray the other nine people in their community and sit in a beer parlour and drink beer. I assume that they have gone into this thing in good faith and are going to try to make a go of it. I cannot offer anything more.

Q. Your idea is that this would be run so that it would not cost the government any money?—A. You would hope that in the long run it would pull itself along on its own weight, but that would depend entirely on the economic cycle of conditions, as you ran along.

The CHAIRMAN: Now, Mr. Fulton, do you have a question?

By Mr. Fulton:

Q. I would like to ask the witness if it would be fair to say that their whole scheme or theory would be dependent on the government underwriting supports to a price program?—A. I believe that would be fair.

Q. Have you given any thought, or has the union given any thought to the problem which would confront the government?—A. Oh, yes.

Q. The problem of disposing of surplus agricultural production.—A. Yes, of course. The problem of price support immediately proposes the problem of generally disposing of surpluses. The situation would be one of having to forecast the price that would be within a reasonable anticipation of the market within the year in terms of production that could be produced annually. And for that reason then you see you would try to avoid the accumulation of surpluses. This has not been mentioned; individuals who could not produce at that price would then, to use my terms, would be squeezed and you would have to move or re-allocate the resources, which must happen in all economic systems.

Q. You are prepared to accept a reduction in the agricultural population?—A. Where you have an expensive type of farming and where you have machine technology applied and the substitution of labour by capital, certainly the labour forces involved in agriculture would go down. A rich economy is characterized by the fewness of people in any enterprise which can produce at a high rate per man-hour. This principle runs true in the case of agriculture as well.

Q. Is not the essence of this scheme that of a planned agricultural economy?—A. I won't answer that directly because I think it is a loaded question.

Q. I am not making any comment on the merits or the demerits of it; there are protagonists as well as antagonists.—A. A market can only absorb so much of a produce; and to the extent that individuals will try to produce to fulfil that market, that is the way we anticipate a planned type of economy.

Q. Would you be prepared, or are you still not prepared to answer my question of the scheme?—A. No, I would not use that word, because of the "colouration" that has been given to it and its implications. I would like to steer away from it.

The CHAIRMAN: In Saskatchewan that is a bad word.

By Mr. Fulton:

Q. I am innocent, because I come from British Columbia. I think your scheme is primarily designed for the prairie provinces?

The CHAIRMAN: He has said that.

The WITNESS: As an original consideration.

By Mr. Fulton:

Q. I was interested in your remarks on the family farm and I wonder if there is envisaged in that that you would suggest that it is undesirable also for a family farm or a family on a farm to increase or to seek to extend their activities?—A. Undesirable from what point of view?

Q. Undesirable from the policy which you have set up in your brief, the policy to which you are subscribing?—A. It depends entirely on your criterion; if your criterion is wholly an economic criterion.

Q. I am asking on the basis of the policy to which you subscribe and it is that the family farm should only farm that extent of land which is capable of supporting that family?—A. I do not believe I said that. Let me put it a different way: that we favour that type of farm; we think it is a healthy social condition; but there may be particular resources involved which lend themselves to a particular type of farm. Then, under our present system social concept has to fall by the way. I mean the impact upon society; social costs are not reckoned into consideration, the total criterion is economic; the criterion of the family farm has to bear the trend.

Q. You are not opposed in principle, and I understand that the brief is not opposed in principle to the idea of a family expanding their activities to the point where they may be farming much more land than is necessary to support that family?—A. The point is this: as I said before, where resources are of a certain type, and if you are going to maintain what you would term as a family type of farm, rather than a corporate type of farm where resources can be employed to the optimum, I can see nothing wrong with it. But where you have a farm increasing to the size where the soil resources cannot be employed to the optimum and in the best interests of the dominion, and where the application of the business type or the corporate type of farm finally results in soil deterioration and erosion, then not only are we opposed to it, but I think most Canadians are opposed to it. Our land resources are fixed with the exception of fringe areas, and the fertility of those resources has also been fixed, and if we do not reckon with the problem, then future generations will have to do so.

Q. I do not know if I am going to get an answer to my question: however I am willing to leave it at that.

The CHAIRMAN: That is fine. This concludes our questioning of Mr. Turnbull. Thank you very much for coming and presenting an excellent brief and a fine explanation of it.

The WITNESS: Thank you, gentlemen.

The CHAIRMAN: Gentlemen, we now have with us Mr. M. M. Robinson and Mr. Hughes Cleaver. Many of you already have some familiarity with the substance and purport of the brief which will be presented by Mr. Robinson, who is secretary-treasurer of the Ontario Fruit and Vegetable Growers Association, and by Mr. Hughes Cleaver, an old friend, who is with him.

Mr. Anderson raised a problem at the last session of the House and it appears in resolution No. 1 under the name of Mr. Anderson and reads as follows:

No. 1

November 12—*Mr. Anderson*—The following proposed Resolution:—That, in the opinion of this House, the government should take into consideration the advisability of amending the Bank Act so as to place farmers in the same preferred class as labour, particularly in relation to protection for payments of farm produce delivered for processing.

Now we shall have the presentation of the Ontario Fruit and Vegetable Growers' Association.

Mr. M. M. Robinson, Secretary-Treasurer, Ontario Fruit and Vegetable Growers' Association, called:

The WITNESS: Mr. Chairman and members of the committee, our brief is quite short and we think it is simple. First of all let me call the attention of those of you who have copies of the brief to certain errors in it. Please turn to page 4, and to the second line, where the word "know" should read "known".

The CHAIRMAN: "... banks have been known ..."; yes.

The WITNESS: And I would like to have the words "to the detriment added after the word "sale".

The CHAIRMAN: Yes.

The WITNESS: And in the third last line of the third last paragraph, which reads "... vegetables to processors in 1952", the word "Ontario" was omitted.

The CHAIRMAN: I shall fill it in. Please proceed.

The Ontario Fruit and Vegetable Growers' Association, on behalf of its 12,138 members and supported by the Ontario Asparagus Marketing Board, the Ontario Peach Marketing Board, the Ontario Pear, Plum and Cherry Marketing Board, the Ontario Grape Marketing Board, the Ontario Berry Marketing Board, the Ontario Vegetable Marketing Board, the Ontario Winter-Celery Marketing Board, and the Bradford Marsh Vegetable Marketing Board, seeks consideration of an amendment to Section 88 of the Bank Act.

The request is not new but our appearance here today does constitute our first official appearance before the Parliamentary Committee on Banking and Commerce.

In Ontario, where some 15,000 farmers from time to time sell fresh fruits and vegetables to processors who account for about 80 per cent of the total Canadian pack the question of protection against bankruptcy is a live issue, made so by re-curring losses encountered when processing firms meet with financial reverses.

Presently, our farmers, in the event of failure of a processing firm, have no protection other than that accorded an ordinary or unsecured creditor whilst labor ranks as a preferred creditor and the banks as secured creditors.

This works an undue hardship as evident in the story of bankruptcies over recent years. Three of these bankruptcies involved common creditor liability of over \$650,000 with our growers encountering heavy losses because of their lack of protection. In some cases individual losses amounted to as high as \$6,000 and loss of farms by growers have been recorded.

Our members have reason to be concerned when it is realized that over \$20,000,000 worth of fruits and vegetables is sold to the Ontario processing industry every year. The produce making up this total comes from thousands of farmers few of whom are in a position to ascertain the financial responsibility of any particular company especially as the sources available to most of these farmers are not too reliable. When credit departments of industrial and commercial firms often fail in securing the essential credit information the helpless position of the average farmer can be realized.

Two other hazards are encountered by the growers. First, most of the produce is of a perishable nature and the search for a market home often induces farmers to contract with processors without due concern as to the ability of the firms to pay. Then too, many growers feel that a signed contract is protection enough. This readiness to regard the signed contract as a guarantee is partly due to the extent to which new groups of farmers are induced to grow and deliver to canner account, some processing firms always being on the outlook for "new" growers. This is especially true with vegetable crops and

with tomatoes. Often too the possession of a signed contract is essential to a bank loan on which the farmer commences the year's operation. The need for a bank loan often induces growers to take chances. It has been recorded that growers have used signed canner contracts as the basis for bank loans only to have the processor fail leaving the grower in debt to the bank the very bank that has closed in on the processor and has accepted no responsibility for the protection of the farmer indebted to the bank.

Often too, the advance made by banks to the processors are wholly or in part for the purpose of enabling the canners to buy the primary produce which is the first essential to any canning operation. As far as we know there is no check as to the use of the funds so advanced. In addition, there have been times when the banks themselves have assured growers that a particular canning company is sound only to have the company go into bankruptcy within a very short time.

As Section 88 is now used—and it should be remembered that it was designed to help primary producers—the banks use as collateral goods which have not been paid for by the firm securing the loan. It has happened that a grower delivered to a canner right up to within a day or two of the processor being thrown into bankruptcy. The moment the produce passes the canner's platform it becomes the property of the bank a fact not generally realized by many growers.

It has been said that if loans under Section 88 were restricted to produce that was paid for some of the distress would be alleviated. This is true and while it would possibly eliminate some canners or curtail their operations it would make for sounder procedure and would give our growers greater protection. Much better that we have reduced sales for which payment is made than sales which are never paid for or are only partially paid for. Surely there should be some protection for the farmer who, armed in March with a canner contract, secures a bank loan and undertakes the somewhat long task of producing and delivering the produce only to find, in the event of failure on the part of the canning company, that he has invested and worked in vain.

The primary producer, in our estimation, is entitled to just as much protection as the commodity the bank deals in or the commodity labor has to offer.

Another unfortunate aspect of the problem is that the banks control the inventories of canned goods. Forgetting entirely the equity unpaid growers have in the produce in the cans banks have been known to force quick sale to the detriment of the whole canning deal and the subsequent pressure on growers, when new contracts are negotiated, by other canners to sell for less. In other words the banks and other preferred creditors have no concern with any other phase than "getting out" regardless of the damage that results from this rush to liquidate.

We contend that without the primary produce there could be no canning operation—no need for factory labor, no need for cans, for cartons, for labels, and no need for bank services yet the product on which the whole industry is based receives, in a financial sense, secondary treatment.

We maintain that it is wrong in principle and wrong in practice to pledge for security goods that do not belong to the canner; that the first obligation for payment and protection is to the primary producer.

We submit for your consideration an amendment to Section 88 by adding a new subsection (6) which if passed will give the growers the same status as is now given to labor under subsection (5).

To give the committee some idea of the extent of the industry we append a record of sales of fresh fruits and vegetables to Ontario processors in 1952, the last year for which total returns are available. These returns are on the basis of returns to the grower.

We seek your full and favorable consideration.

All of which is respectfully submitted on behalf of the Ontario Fruit and Vegetable Growers' Associated and affiliated marketing boards.

The CHAIRMAN: Would you also read the proposed amendment, Mr. Robinson?

The WITNESS: Yes.

PROPOSED AMENDMENT

(6) Notwithstanding anything contained in subsection (2) and notwithstanding that a notice of intention has been registered pursuant to this section by a person giving security upon property under this section, where under the Bankruptcy Act a receiving order is made against or an assignment is made by such person, accounts owing to primary producers for the selling price of fruits or vegetables in respect to deliveries thereof within a period of three months next preceding the making of such order or assignment shall be a charge upon the property covered by the security in priority to the rights of the bank therein and if the bank takes possession or in any way disposes of such property such accounts owing to primary producers for the selling price of fruits or vegetables with respect to deliveries made during the period aforesaid shall be paid by the bank and the bank shall be subrogated in and to all the rights of such primary producers to the extent of the amounts so paid.

VALUE OF FRUITS AND VEGETABLES SOLD TO ONTARIO PROCESSORS IN 1952 WITH SOME RETURNS FOR 1953

	1952 Value	1953 Value
Sweet Cherries	\$ 67,969.36	\$ 97,335.02
Sour Cherries	519,850.71	916,274.65
Plums	103,026.14	116,527.28
Pears	422,970.48	754,666.27
Peaches	1,784,321.39	1,789,068.36
Grapes	1,147,016.59	1,467,662.09
Asparagus	489,044.28	538,607.33
Corn	1,756,939.00	1,021,283.00
Tomatoes	9,804,573.00	6,164,657.00
Peas	1,819,685.00	2,189,443.00
Strawberries	450,140.00	523,272.00
	<hr/>	<hr/>
	\$ 18,365,535.95	\$ 15,578,796.00

In addition to the above the values of other fruit and vegetables sold to processors are available, at the moment, for 1952 only. They are as follows:

	1952 Value
Apples	\$ 538,203.90
Crabapples	5,968.72
Blackberries	288.00
Blueberries	35,288.66
Currants	36,646.74
Raspberries	155,272.00
Beans (green, wax, lima and dry)	1,071,115.15
Beets	66,544.36
Cabbage	76,315.83
Carrots	399,044.89
Cauliflower	64,214.53
Celery	150,965.50
Cucumbers	714,241.54
Mushrooms	595,373.57
Onions	139,875.37
Peppers	66,064.34
Potatoes	399,947.32
Pumpkin	123,075.39
Rhubarb	3,667.95
Spinach	8,643.27
Turnips	9,622.28
	<hr/>
	\$4,589,309.11

This gives a total value of fruits and vegetables sold to Ontario processors in 1952 of \$22,954,845.

The CHAIRMAN: Mr. Crestohl?

By Mr. Crestohl:

Q. Mr. Chairman, could we have a little more information on the question of the figures? You say that approximately \$20 million is the annual amount of sales?—A. Yes.

Q. Can you tell the committee what would have been the proportions in losses through bankruptcy to the growers during the last one, two or three years?—A. No, I cannot give you the exact figures, sir. The last failure of any consequence was a matter of two or three years ago. It occurred in the Wentworth Canning Company and involved several hundred thousand dollars.

Mr. WEAVER: Where do you get the figure \$12 million?

Mr. CRESTOHL: The figure is \$20 million and it is at the top of page 2.

The WITNESS: I might submit that the proportion of losses in relation to the gross sales would hardly give a true picture, because the grower's viewpoint is from the standpoint of his own personal loss, and the loss of one or two or three thousand dollars to a grower would mean a great deal more than is implied in the relationship of the total amounts lost in relation to the gross sales.

By Mr. Crestohl:

Q. I think it would be helpful to the committee if we had an idea as to the frequency of the bankruptcies and the size of the losses because if they are trivial—although it might be serious to some of the farmers—I wonder if it is serious enough to ask for an amendment to the Act?—A. We would get a breakdown for you. The total amount involved in the three most recent bankruptcies was \$650,000. On the basis of a \$20 million gross sale, that would give you the percentage.

Q. You said that was two years ago?—A. Two or three years ago.

Q. And what has it been in the last year or two?—A. We have not had any in the last two years.

Mr. STEWART (*Winnipeg North*): May I ask a question, Mr. Chairman?

The CHAIRMAN: Certainly.

Mr. STEWART (*Winnipeg North*): The banks very frequently lend money to businesses and take as partial security inventory as that business progresses. Would you suggest that what has been suggested here for the grower should be extended to all industry?

The WITNESS: Well, I can only answer that by saying that we are here to look after our own interests and it is up to other people who feel that way to put forward the contention, but I would say that your proposition might be true and that Section 88 as it now stands is not just the proper set-up. Section 88 to my mind—and I do not profess to be an authority; I am a farmer and not a banker or an economic expert—but I do suggest that at the present moment the banks certainly are in a sufficiently secure position and the primary producer is in an unsure position.

Mr. STEWART (*Winnipeg North*): I would be the last to dispute that but I wondered, if it were extended to all of industry, what effect it would have on bank loans?

The WITNESS: My own experience is that the banks are pretty well able to take care of themselves.

Mr. STEWART (*Winnipeg North*): I do not think you will find anyone who will disagree with you, Mr. Robinson.

By Mr. Johnston (Bow River):

Q. I do not know much about this business, but I was just wondering if the witness could tell us this: surely when the farmer agrees to sell his produce to the canner there must be some contract entered into?—A. There is a contract.

Q. Could you not by adding something to that contract protect the farmer? Certainly he would not just turn his produce over to the canner?—A. I think that is a legal technicality and I would like Mr. Cleaver to answer that for us.

Mr. CLEAVER: Mr. Johnston, you are apparently not aware that under Section 88 of the Bank Act as soon as any manufacturer, which includes a processor, receives any goods into his establishment, whether paid for or not, by virtue of Section 88 of the Bank Act that manufacturer has the legal right to pledge those goods as security for a bank loan regardless of any contract.

Mr. JOHNSTON (*Bow River*): Regardless of any contract?

Mr. CLEAVER: Yes.

Mr. JOHNSTON (*Bow River*): That seems to be a rather drastic situation in which to put the farmer.

Mr. CLEAVER: If I might in part reply to Mr. Stewart's question, as to whether this proposed amendment should apply across the board, I would remind Mr. Stewart that the individual farmer does not have the facilities

for checking the credit worthiness of the canner that the ordinary commercial institution has and that perhaps that is one reason why the farmer should be put in the same position as labour, vis-a-vis this problem.

The CHAIRMAN: Mr. Fraser?

Mr. FRASER (*Peterborough*): Your association would be in a different position entirely from most other producers or manufacturers because your merchandise is definitely perishable, and must be disposed of immediately?

Mr. CLEAVER: That is right.

Mr. FRASER (*Peterborough*): Now, if Section 88 were changed would the processors be able to get advances from the banks as easily as they can at the present time?

The WITNESS: I suspect some of the companies would be able to but we would not be concerned. We would feel that is all to the good and it would place our industry on a much sounder basis than it is at the present time.

Mr. FRASER (*Peterborough*): Would you feel that only those reliable companies would be able to get the loans and therefore bankruptcy would be out of the question?

The WITNESS: Yes, and we feel that the banks would tighten up and perhaps be a little more careful as to who they advance money to, and that would help us, too.

Mr. FRASER (*Peterborough*): I thought they were careful at the present time?

The WITNESS: They are, but they can slip up, too.

Mr. FRASER (*Peterborough*): Oh, we all do.

The CHAIRMAN: Mr. Fleming?

Mr. FLEMING: I wanted to go back to the answer Mr. Cleaver gave to Mr. Johnston, without wishing to quibble about the particular form of the statement he made. He said the banks' priority attached from the moment the goods passed into the possession of the processor. I think what Mr. Cleaver meant to convey is that it attaches at the moment when title passes from the farmer to the processor, and under the kind of contracts you are using, as I understand it, the title does pass on delivery of the goods to the processor. The difficulty then arises because the goods are mingled with those of other farmers and it is not possible from that point on to distinguish the goods of one farmer from those of another.

Mr. CLEAVER: Would you tell me, Mr. Fleming, any way in which a farmer by a contract can over-ride the operation or the powers contained in Section 88—I believe it is subsection 2—of the Bank Act. Mr. Gratrix, do you have a copy of Section 88 of the Bank Act here?

Mr. FLEMING: I wonder if Mr. Cleaver would not agree that the problem that he is stating arises not at the moment of delivery, apart from the contract, but at the moment the title of the goods passes into the hands of the processor?

Mr. CLEAVER: If I may read from Section 88 for a moment: subsection 1 reads as follows:

The bank may lend money and make advances

- (1) (b) to any person engaged in business as a manufacturer, upon the security of goods, wares and merchandise manufactured by him or procured for such manufacture or production;

This means that just the minute a bushel of tomatoes passes into the possession of a processor, then that processor is empowered by Section 88 of the Bank Act to pledge that bushel of tomatoes to the bank as security for a

loan. I concede at once, as Mr. Robinson has already done, that if this committee should deem it advisable to recommend this amendment, then small canners who are not credit worthy will not get bank credit and will not be in business. The result is that the farmers will not suffer these losses. You see, a farmer has no facilities at all for checking the credit worthiness of a canner—none at all. He simply has to hope for the best. Whereas in the case of the American Can Company selling cans to a canning industry or a sugar company selling sugar, they have credit departments and if a canner is not sound they will jolly well sell for cash.

MR. FLEMING: Mr. Cleaver is dealing with the matter on the merits of the proposal. I am dealing with this point at the moment at which the banks' prior claim can attach. He has put it on the basis of the moment it is procured. I come back to his statement, and I point out that it is not the moment at which possession passes into the hands of the processor but the moment at which title passes that is vital. I would like to see the contract, because I have an idea that under the contract the title does pass into the hands of the processor when delivery occurs. We may find ourselves arriving at the same result.

MR. CLEAVER: In the absence of any provision, title passes in regard to a person with possession.

MR. FLEMING: Again it depends on your contract, and here is another thing you are up against on your contract—and I do not see any way out of the difficulty—and that is you are receiving at the cannery the goods of a great many farmers and they are all mingled. I think you will see under your contract the title passes at the moment of delivery and from that point on everything is mingled.

MR. CLEAVER: Are you concerned about the problem of distribution afterwards?

MR. FLEMING: No, I was coming back to your statement in reply to Mr. Johnston's question, because I did not think it was quite complete. Mr. Johnston was concerned about the form of the contract, and in your answer you suggested to him that the contract did not have anything to do with it, but that possession was the only thing that counted. I feel the full answer is that under the contract title passes at the moment possession passes, which brings us right back to the contract.

MR. CLEAVER: I know of no way in which a grower can provide that title does not pass when he delivers possession on all fruits and vegetables.

MR. FLEMING: It would be possible for two people who were dealing on equal terms to provide that the farmer could retain a lien on the goods in the form in which they are processed.

MR. CLEAVER: Under what Act?

THE WITNESS: Let me answer that, Mr. Fleming.

MR. FLEMING: Could I finish my statement? But the difficulty here which you cannot provide against in any ordinary contract is the mingling. The mingling creates an insuperable difficulty in the way of retaining title as the goods are processed collectively, and the only way you could prevent that would be to process the goods of one farmer at a time, and follow it right through, but that, of course, is quite impossible in a commercial cannery where they take the fruits and vegetables of dozens of farmers at the one time.

THE CHAIRMAN: Mr. Huffman?

By Mr. Huffman:

Q. Mr. Chairman, if a commodity is delivered to a processor for storage and not under contract, would the commodity be absorbed in the same manner?—A. If the goods are delivered for storage?

Q. Yes.—A. To be canned later?

Q. We are not speaking necessarily of a canned product.—A. We have cases where produce is delivered to a canner for storage and for processing a month or two months later; pears, for instance. The very thing which I am complaining about applies. They have possession the minute they get those pears and possession seems to be the basis of the whole thing.

Q. Then would it be true about the only way you could overcome this, if there could be no change in Section 88, would be a payment for each delivery which would entail a great deal of bookkeeping?—A. We would not object to such a set-up, but I agree it is almost impossible.

Q. Mr. Chairman, have other commodity producers submitted resolutions of a similar nature?

The CHAIRMAN: I placed them on the record the day before yesterday. I will give you the names: The Canadian Food Manufacturers' Association, the Ontario Retail Food Dealers' Association, the poultry industry—on another point which has been looked after—and Murray Clark sent a resolution to the committee from the Ontario Seed Growers' Association. I place that on the record also. This was on Section 88.

The WITNESS: One of the main things is that our farmers have no way of establishing the financial responsibility of a company. We could give you concrete evidence. We could give you a positive fact to show you the thing that arouses our gall. One of the three companies referred to went into bankruptcy on a Monday. On the previous Friday the chairman of the Asparagus Growers' Marketing Board happened to be in the office of a competitive company, a much larger company and a company that was completely responsible financially. The president of that company said to the chairman of the marketing board, "What do you know about so-and-so?" He said, "What do you mean?" He said, "Do you know what his financial position is?" The chairman of the asparagus marketing board said, "No, I do not." "I suggest you find out." "Do they owe you any money?" "Yes, \$13,000." On the way home that day, a Friday, the chairman of the asparagus marketing board went to the canning company and did get a cheque for \$4,000, and immediately went to the bank and cashed the cheque and, after cashing the cheque, asked the manager of the bank as to the financial status of the particular canning company, and was assured that the company was in good shape. On Monday the company failed. That is a positive fact which we can prove. We have other cases of the same kind. I am not condemning the banks, but I think, as a grower, that when I go to a bank to borrow some money to commence the season's operations and part of my income for that year, with which I will repay the loan, is a sale of produce to a canner, that bank has an obligation to me to protect my loan that I got from the bank that spring. That bank should let me know if the processor I am dealing with is in trouble. The banks do not do it, gentlemen.

The CHAIRMAN: You say that they do not do it. Your bank would do that if you asked them to do it.

Mr. ANDERSON: Mr. Robinson, is it not true that in the case of some canning companies—I mention canning companies—peas were taken off in late June or early July. Is it not true that the canning season and so on is over for about four or five months, always some months later before payment?

The WITNESS: It used to take six months. In the last year or two the marketing boards have fought energetically to get a 3-month payment clause in the contract. Some were successful in the last year in getting the contract partially changed, so that there is payment within so many days and the

balance within three months. In spite of that, at the present moment there are one or two canning companies in Ontario that have not yet liquidated for purchases last summer.

By the Chairman:

Q. Give us a normal situation of a man delivering and how he would receive his money normally. —A. I am growing tomatoes, and I deliver tomatoes to a canner for a period of, say, 30 days. I deliver to him each day as they ripen, and first I have so much for my crops, so many tons. Under his contract he can limit my deliveries if he so desires: if the weather becomes such that deliveries get too heavy, he can curtail, which he does. He uses that to curtail for other reasons. Normally you would wait at least three months when, upon presentation of your receiving slips or signed delivery slips, you get partial or full payment.

Q. If you receive partial payment, when would you receive the balance, normally? When receiving partial payment, would you receive 50 per cent normally and the balance within 30 days? Let us say you sell it to the Campbell Soup Company?—A. The Campbell Soup Company are a reliable company and there is no difficulty except that they too take plenty of time.

Q. I am not talking about reliability. I am talking about normal business dealings.—A. I think that the grower feels that most companies take too much time in their payment.

Mr. STEWART: Does not that mean that the producer is financing the grower?

The WITNESS: The producer is financing the canner.

Mr. STEWART: I mean, the producer is financing the canner.

Mr. ANDERSON: Is it not true that now, since the marketing boards have assisted us, we do get payment in a short while, but is it not also true that that half payment is all taken off, or nearly so, for services for seed and various services, and the farmer gets very little money out of the half payment?

The WITNESS: That is right; in some commodities, peas, corn and some of the commodities such as tomatoes, where the canners supply the plants or seed those deductions are made in the first payment. So the amount of actual cash that the farmer gets himself out of the first payment is limited. It is not until he gets the final payment that he is in the clear.

By Mr. Crestohl:

Q. Mr. Robinson, the problem which you suggest exists is a serious one, and I think that the committee would be inclined to be sympathetic, but I am not satisfied whether the remedy you suggest would not do more harm than good to the organization. I would like to have your opinion too. The banks are not under compulsion to lend?—A. That is right.

Q. It is purely voluntary and when the grower at the beginning of the season cannot proceed with his operation unless he does get a loan from the bank, would it not restrict his operation by invading the bank's desire to lend money by affecting its security?—A. What is the last part?

Q. Would not the grower restrict his own possibility of securing money by attempting through this amendment to invade the bank's willingness to lend money, because he is asking that their security be somewhat infringed upon?—A. We have considered it in committee and we have come to the conclusion that our industry would be in a much sounder position if some of this free loaning was restricted, that is, when the grower is not in a position to protect himself. I think myself that the farm set-up realizes that when you have countless growers; I venture to say the tomato marketing board might have 7,000 or 8,000 growers growing tomatoes in Canada at one time.

By the Chairman:

Q. Do they sell it through the marketing board?—A. Only one marketing board makes the contract with the canners. The other marketing boards set the price by negotiation, and the individuals sign the contract and make the sale.

Q. Through the marketing board?—A. Not on the actual sale of the produce. All that most of the boards do is establish price by negotiation with the processors. Having done that, that price becomes a minimum price by law in Ontario. Then it is up to the individual grower to negotiate his sale with a particular canner or a number of canners.

By Mr. Crestohl:

Q. I am interested in your urging that you are entitled to protection, or the grower is entitled to protection, and you have to look to the banks to give you that protection. Do you not think that the bank will see to its own protection first?—A. I am not under any illusions about them.

Q. But you are suggesting that they now yield a proportion of that protection for the benefit of the grower?—A. Even if this amendment went into effect, I do not think that the banks' position would be weakened much. They might restrict, but they will look after themselves.

Mr. McMILLAN: It would cut down the number of small canners.

The WITNESS: It might or might not. Some think it will not.

By Mr. Huffman:

Q. One more question, following on the one Mr. Anderson has asked, speaking about deductions. If the deduction is made on the first payment and a grower still owes the processor, and the processor went into receivership, would the grower's account still be ample to the ability of the grower to pay in full rather than have the debt offset by his deliveries?—A. Unfortunately I have never served as a trustee in one of these bankruptcies. One of our directors who left a few minutes ago served as a trustee and he could tell you, but I cannot give you the information you desire. The point is that I sell tomatoes to a canner. I get a first payment from which the usual deductions are made, but in the event that all the deductions are not out of that first payment and the first payment is not ample to take care of all the deductions, then the deductions that are left will come out of the second payment. In the meantime the processor has failed. The point is raised in the settlement: are the deductions made? I suspect they are.

Q. Does the grower pay 100 per cent according to his ability to pay?—A. He would pay 100 per cent of those deductions. The trustee in bankruptcy would see that he pays.

Mr. HELLYER: We would have to have some point of principle if we were going to favour this suggestion and provide the necessary amendment. Would it be that the farmers consider that because of the high labour content, both indirectly and in the production of trees and in the current labour content too, their fruit in fact represents largely their own labour, and that is why they feel they should have the same priority as wages in bankruptcy proceedings?

The WITNESS: We feel that if labour in the canning plant is protected we have a right to expect labour on the farm to be protected. We farmers who put that money out are surely entitled to the same protection.

Mr. HELLYER: As Mr. Crestohl puts it, do you feel that it represents the "fruits of your labours"?

The WITNESS: Yes.

By Mr. Fleming:

Q. I was interested in what you said about the delay in making the second or final payment. Over what period does that delay extend?—A. It used to extend for months and months, sometimes six months, but with the advent of the marketing boards we have been able to improve our position in that respect materially. Negotiations for tomatoes this year were held up for weeks, not over price but over items of contract and payment. The negotiations were protracted for five or six weeks, and they were very bitter, because our grower representatives were fighting not only for a more equitable contract but quicker payments. In the end the growers were not able to get what they wanted. They got some modification, but not what they wanted.

Q. What is the average period of delay now in making that final payment?—A. It varies with products. I would say that with the main products most of the top canners are now cleaning up within three or four months.

Q. The others, the weaker canners?—A. I know one particular case at the moment which is causing us some alarm, of one canner who has not cleaned up for last summer yet.

Q. I would like to point out to you, in the light of that answer, that I do not think that the amendment is going to help very much in a situation like that, because what you are proposing is priority to the primary producers for the selling price of fruits or vegetables in respect to deliveries thereof within a period of three months next preceding the making of the receiving order or assignment. Let us say that your tomato producer makes his delivery on the 31st August. There is a partial payment made then, and as to the final payment—you said that in one case a man had not been paid for last summer. The last date to which priority would apply, where delivery was made on August 31, would be November 30, and if the bankruptcy occurred after that date he would have no priority. I wonder if for that reason three months is what you want?—A. The marketing board in question that has allowed this particular canner to carry on so long is to blame, and when a marketing board or the growers allow a canner to go so long, we do not think that we have to worry unduly about his position.

Q. I wish to draw this to your attention, because you may possibly wish to reconsider this amendment in this regard. You receive more rapid settlement out of companies that are not likely to go into bankruptcy. The trouble is that the canners who are likely to be in financial difficulties or in danger of going into bankruptcy are those that delay payment. Could we discuss further the one case you mentioned of the canner who took delivery last summer and has not been paid yet? I wonder if this amendment is going to help you in its present form as much as you wish? If delivery was made on August 31, your priority would be gone completely on November 30. You raised the question as to whether in that event a man should not be left to look after himself. What does he do? His priority applies only in the event of bankruptcy and if he is struggling to collect that money before the 30th November and the canner is slow, what can he do? He can sue and get a judgment, but that will not give him any priority after November 30. Three months, it strikes me, is going to be too limited a period to help in the situation, which is more likely to present a detriment to your producer, as you described it today.—A. In all these things there is always some compromise. In inserting the three-month clause, we looked at the labour clause. We felt that if we asked for a six-month clause that might hurt a bit, but if you will not give us six months we will be happy about three months.

Q. If we are going to do this at all, we ought to do it with some serious regard for the wish to make it effective.—A. I think there is one other factor

that will enter into it. I firmly believe that before another year has rolled around all our contracts will be three-month contracts.

Q. Suppose the contract is broken with the canner, who is in financial difficulties? Then you have no priority once the period of three months is gone. If the canner does not pay up, what can you do in the meantime?

Mr. CAMERON: Do I understand that—

Mr. CLEAVER: I think the Growers' Association appreciate that the greatest result that would flow from such an amendment would be that credit would not be extended by the banks to canners who were not credit worthy. I believe the feeling is that that is the main benefit that would flow from such a provision. It might well mean, as Mr. Huffman mentioned, that some small canners would go out of business who were not properly financed. But in the long run that would be beneficial to the farmers.

The WITNESS: Rural opinion over the last few years has changed on the question of canners. There was a time when our growers felt that the more canners the better; the more people in the processing business, the more competition for our products. In recent years that viewpoint has changed because we are finding now with the advent of marketing boards that the big canners are easier to get along with. They cooperate better and most of our trouble is with the smaller operators. There are other reasons too. I do not know whether you want them. We are interested in the canner's price—the canners' selling price of the canned commodity. We have a vital interest in that and watch it closely and we find that a lot of smaller canners are prone to open up the fall selling season at low prices in order to get movement of goods so that they can pay back the bank, and the end result is that they destroy what we call ordinary marketing; they create at times a very chaotic marketing condition which eventually recovers itself because the big ones can wait.

By Mr. Fleming:

Q. I should like to come back to one point which was mentioned. I think the witness has been overly modest in putting his case in comparing the case of the grower with the priority for three months' wages given the employee of the canning plant. In the case of the employee, he can within that three months' period withdraw his services if he is not being paid. I do not suppose that there are very many workmen who would go three months without receiving their wages. There are also safeguards under the law for the employee by way of claims against the directors of the companies who fail to pay them for their wages. You have not got that.—A. That is right.

Q. And I do not see, if you have a sound case, why you need to restrict that period to three months simply because it is in the subsection, because your grower has parted with his fruits and vegetables. There is nothing he can do at that stage. He cannot withdraw his goods as a workman can withdraw his services.—A. We would be very happy to extend the period.

Q. What period would you recommend if not three months?—A. Six months.

By Mr. Cameron (Nanaimo):

Q. Would it be correct, Mr. Robinson, to say that due to the existence of the present section 88 in the Bank Act that it has been relatively easy for the producers of fruits and vegetables to get bank credit?—A. There is one thing I should state, and that is that in at least three of the failures, two of them were not what you would call little companies.

Q. I am not concerned with whether big or little. It would seem so far that the existence of section 88 has enabled those in the processing business to get bank credit pretty easily?—A. I think that is true.

Q. Would you say that that indicates that the most important asset which can be put up as collateral for bank credit in this business is the produce itself?—A. I would think it would be.

Q. Then do you not think that the interests of your organization would be better served if the members of the organization were to organize to use that asset themselves as a basis for obtaining bank credit rather than restrict the possibility of getting it?—A. You mean that we should go into the canning business. Perhaps we should go into the banking business.

Mr. CAMERON (*Nanaimo*): I suggest this difference: you grow tomatoes, you do not grow dollar bills.

The WITNESS: I grow tomatoes.

By Mr. Crestohl:

Q. Perhaps you can differentiate between the position of your growers and our fishermen both of whom produce a perishable article and deliver it to canners for canning, both of which must be done within a specified delay. Would you not say, therefore, that the fishermen would also be entitled to protection under section 88 similar to your growers, and if there is a difference would you point it out?—A. My personal opinion is that all primary producers should qualify.

By Mr. Quelch:

Q. I do not understand how that practice has developed by which growers deliver their produce and then wait three or four months before they get paid. I do not know what would happen in western Canada if commission agents and elevator agents did not pay for three or four months. I do not think they would get any deliveries.—A. I would say this, that the pressure on our fellows to get rid of the stuff is much keener than your men, because I presume your men have a storable crop; our crops are not storable.

Q. We have eggs, and get payments on eggs, and milk and cream. It seems to me that the action should be pressure on the canning companies to pay upon delivery.—A. Your farmers are much tougher than ours are, and perhaps we should take an example from them.

The CHAIRMAN: Well, gentlemen, that concludes the present hearing. We will meet again on Tuesday with the bankers.

Mr. H. H. HALLETT: May a citizen of Canada ask a question.

The CHAIRMAN: I am sorry, we have your brief.

APPENDIX A

BEING A PRESENTATION
to the
STANDING COMMITTEE
on
BANKING AND COMMERCE
by

INTERPROVINCIAL FARM UNION COUNCIL

1. Introduction.
2. Evolution of Policy.
3. The Position of Agriculture.
4. The Farmers Reaction.
5. Criteria for Policy.
6. Types of Financial Service.
7. The Challenge.
8. Relation to Land Tenure.
9. Evaluation of Credit Facilities.
10. Recommendations.

Appendix No. 1

Appendix No. 2

We are pleased to avail ourselves of this opportunity to make our presentation to the Standing Committee on Banking and Commerce on behalf of the farm unions. We have long sought a suitable new type of agricultural credit to provide long-term stability for Canada's basic industry, and have, along with other interested groups, urged the Federal Government to take the necessary steps to provide facilities on which to base a sound agricultural policy.

Financing agriculture in Canada involves extensive use of credit. Many farmers do not have sufficient capital of their own to acquire or operate a farm. They must therefore borrow money if they are to purchase or improve land for farming, and many must borrow to meet current production expenses.

The question is how to use credit so it becomes the needed tool of production; to increase farmers' income, improve their capacity to repay, and raise their standard of living. This brief will consider credit facilities as related to agriculture and draw conclusions as to whether any modifications or extensions are desirable.

Evolution of Policy

As one follows the fortunes of Canada's economy from the economic stagnation of the early eighteen-fifties to the doubtful position of the nineteen-fifties, great economic, social and political changes are observed.

Prior to Confederation, economic theorists held that the proper role of government was laid down by Adam Smith¹. At first glance it would appear that Canadian thinking of the day followed the philosophy of a "free" economy. In fact, the myth that our nation was developed under these conditions still exists today. The shrewd business interpretation of a "few essential public works" by the government of that day was a wide digression from the laissez faire theory. It consisted of establishing conditions, at high public cost, that would bring the virgin resources of the prairies into the scope and range of profitable exploitation by private business. Such policies are perhaps justifiable on a political basis but are invariably obtained at high economic cost. By 1908, a combination of favorable prices, more efficient technology and the possibility of an expanding frontier, induced the British investor to lend in unprecedented volume.

"Canada's hour had struck."² By 1913, with the close of the frontier, her hour was over. It was the end of the era of rapidly expanding horizons that had started over 400 years prior, with the docking of the Nina, Pinta and Santa Maria.

Birth and death of all living things, including society, is never peaceful and rarely pleasant. The world was shaken by World War I, thrown into despair during the great depression of the thirties, only to be seized by the social convulsions that resulted in World War II. And now, still dominated by whirling forces and conflicts of social transition and evolution which it has not yet learned to control except by war, it helplessly gathers the mechanism of complete destruction.

Political form, the government arm of social consciousness, has retained its traditional outward characteristics. But little else is left of Adam Smith's principles, even in Canada. The net social results of these cataclysmic effects have had, and will continue to have, far-reaching effects in establishing criteria for policy. People have seen that governments can mould their lives, and civil servants have learned how to do it. The thinking of the classical and marginal-utility theorists is no longer accepted as a means of discovering iron "economic laws" but rather a means of evaluating man-made economic institutions.

The basic motivation for this trend is to be found in the roots of the cultural revolution in which we are now living. Fundamentally it is the conflict between animism and science, the supernatural and the matter-of-fact, and man's conception of his experience.

It is not our purpose to do more than mention these facts. The challenge to existing institutions by machine technology is known.

The challenge is directed not only to the economist, but also to the sociologist.

The Position of Agriculture

Allocation of Resources:

In any advanced economic system such as ours there exists a high degree of specialization of resources. Factors of productions, land, labor and capital are divided among a large number of industries. As each industry produces and exchanges its produce for the products of other industries, one of the principal problems of economic life becomes how to determine *the size* of the various industries.

¹ Joseph Sirois, Report of Dominion-Provincial Relations. Queen's Printer, 1940, P. 37.

² Ibid p. 66

Also see Fowke, V.C. Canadian Agricultural Policy, University of Toronto Press, p. 160-187.

The dictator in a totalitarian state solves this problem by decree, no matter what the feelings and desires of those who build it.

In our economy this is not so, but the individual is allowed to put the resources which he owns to any use he thinks fit, provided that he does not damage the property of others. In this case allocation of resources is accomplished by the interaction of desires of all the individuals in society, due to the principle of equal advantage.³ This may be defined as the shifting of factors of production into the industry yielding the greatest advantage, both in the monetary and non-monetary sense.

Agriculture presents a special case in any "free" economy. This is because production is mainly in basic materials like food and raw materials. As a society progresses, less is spent on basic necessities, and the relative magnitude of agriculture, as well as other industries producing basic necessities, must decline. In a free society, a relative decline in any industry is accomplished by it becoming unprofitable; and people are squeezed out as a consequence.

This brings us to agriculture's chronic difficult position, because (a) In an expanding and progressive society, it must always be in relative decline to other industries and must always be in a process of absorbing a smaller proportion of the whole economic activity;⁴ and (b) During a period of "equilibrium" or contraction, agriculture is stressed sooner, more sharply and longer than other industries.

We may conclude then that in any society where factors of production are allowed to move freely, the application of the principle of equal advantage will continue to squeeze people in agriculture.

The farmer's economic reaction to present monetary policy

By ordinary standards the costs of production in modern farming include:

1. Fixed costs:

- (a) rent
- (b) interest on investment
- (c) obsolescence and depreciation
- (d) insurance
- (e) taxes
- (f) wages to himself and family

2. Variable costs:

- (a) current supplies
- (b) hired labour
- (c) repairs and replacements

Studies show that when farm prices do not meet these costs of production, the farmer has to neglect his fixed costs. He compromises with the landlord or creditor, postpones depreciation replacements, drops insurance, lets taxes go delinquent, and takes a minimum living as his only wage. Thus his only costs become variable costs.

The number of farmers who cannot meet these costs varies in proportion to (a) Level of prices; (b) Climatic conditions; (c) Soil fertility; (d) Application of technology. It should be noted that there is a minimum size with regard to economic efficiency in application of technology. This tends to increase as techniques lead to a greater efficiency. (⁵)

³ Boulding, K. E. *Economic Analysis*, p. 182.

⁴ *Ibid*, p. 208. Harper Bros., New York.

⁵ Fowke, V.C. *South Saskatchewan River Report*, Queen's Printer, Ottawa, 1952. Pp. 100, 101.

"The persistent and continuing tendency toward larger farm units in Saskatchewan and Alberta is clearly indicated."

According to present trends, Canada should gain a larger share of a reduced market. Marginal wheat producers who have alternate employment will shift, and those who have no alternative will become subsistence farmers. The better lands will produce a smaller net return than formerly and much of the land presently occupied will become sub-marginal. In addition, mechanization, while assisting in reducing costs, finally will result in populations excessive in relation to employable resources.

The five possible resolutions if this trend continues are:

- (a) Subsistence farming
- (b) Part-time farming
- (c) Wage labour
- (d) Relief
- (e) Intensive agriculture, i.e., irrigation

The extent to which society pushes toward greater efficiency on the one hand, and tolerates subsistence on the other, is an acknowledgment that men are slaves rather than the masters of their own machines. ⁽⁶⁾

Some of the steps that the individual is forced to take in meeting the variable factors that influence his economic position are not in the best interests of agriculture and the Dominion. This is the main reason why public assistance to individuals is justified. Two main factors in which the public has sufficient interest to assist individuals are (a) Technical progress and (b) Soil conservation.

Criteria for Policy

It can be said that no authoritative source for criteria of policy exists in our society. All policies continue to change as our social structure continues to evolve. "Sound" monetary policy of today would have been rank financial heresy thirty years ago.

In evaluating agricultural credit, the following may be acceptable as criteria:

1. Policies should assist conservation of soil and water resources.
2. Policies should help conserve human resources.
3. Policies should help improve rural institutions.

Implied in these criteria is the concept of "national well being". In our highly integrated society, general welfare is accepted as paramount. There can be no privilege or advantage for any single group that cannot be supported by any other. ⁽⁷⁾

Types of Financial Service

Financial facilities needed by farmers may be divided into three main classes:

1. Direct grants to farmers who, because of misfortune, have exhausted their resources and therefore cannot be expected to repay regular loans.
2. Loans by agencies subsidized indefinitely by the government in order that they may accommodate farmers who have ability but whose financial position is weak.
3. Credit on a "business basis", which means that the farmer repays the full amount of the loans, plus a rate of interest that will cover losses, operating costs and net the investor furnishing the funds the prevailing rate of interest. ⁽⁸⁾

⁶ Gove Hambidge, *Farmers in A Changing World*, United States Government Printing Office, 1940. Pp. 3-99.

⁷ Kolb and Brunner, *A Study of Rural Society*. The Riverside Press, 1952. Pp. 487-501.

⁸ E. C. Johnson, *Farmers in A Changing World—Agric.*, Credit United States Government Printing Office, 1940. Pp. 741-754.

The Challenge

Settlers in the East may have been self-sufficient, but certainly the West-erners never were, and have always required substantial amounts of credit. With land resources fixed and values rising; with operating costs increasing because of greater mechanization, these requirements have increased and shall continue to do so in the foreseeable future.

The challenge that private sources of credit had an insufficiently wide base to carry the farmer was levelled before the frontier had closed. By 1913, the Saskatchewan Government, under Honorable Walter Scott, appointed an Agricutural Credit Commission to study the shortcomings of facilities.⁹

These challenges still exist and the intensity generally varies with the level of prosperity. No more geographic frontiers are left to be conquered. The development of world markets proves to be slow and unpredictable. War seems to be a reliable substitute stimulus for our pecuniary economy.

This brings us sharply to the objectives of monetary policy, and the methods of accomplishment.

Relation of Credit Facilities to Land Tenure

One of the fundamental ideals underlying early democratic ideas was the widest possible diffusion of privately held land, occupied by owner operators, in family-sized units. To this end, early land grants and land patents were made. The preemption laws, and later homestead acts, were designed to attain the same objective.

The general trend has been away from these objectives, and tenure has changed from almost 100 per cent ownership at settlement to 77.8 per cent ownership in Manitoba, 65.5 per cent in Saskatchewan, and 65.9 per cent in Alberta.¹⁰ In the last decade this trend has been offset by favorable farm prices, but will be resumed when conditions change to the farmers' disadvantage. It should be noted that the tenure of part owner-part tenant has been increasing steadily.

There is a conflict in values held by Canadians in this respect. On the one hand there is the belief that farm land should be owned by those who till the soil in family-sized units. On the other, under the philosophy of free enterprise, a man may acquire as much land as he can pay for.

The family farm theory of tenure consists of the following general propositions: "1. Farmers own and operate their farms as independent entrepreneurs.

2. Farm units are large enough to yield farm families on acceptable standard of living.

3. Farm units are not larger than the farmer and his family can operate without depending upon substantial year-round hired labor force, so as to provide a wide dispersion of land ownership among farmers.

4. Farm families are secure in the occupancy of their land."¹¹

The farm business theory of tenure consists of the following general propositions: "1. The business of farming is conducted along the financial, organizational and managerial principles applied in any other non-farm business.

⁹Members were George Langley, J. H. Haslam, C. A. Dunning and E. H. Oliver. Their recommendations consisted of these two main points:

- (1) The spread of co-operative effort, particularly in buying and selling.
- (2) Fostering financial institutions of our own, (Western), with sympathies for our own problems and controlled by our own people.

¹⁰See Appendix 1.

¹¹Schickele, Rainer—Teories Concerning Land Tenure *Journal of Farm Economics*, Dec., 1952, pp. 736-738.

2. The free market forces are allowed to determine the tenure status, size of farm, and family income for each farmer, agricultural worker or employer according to his individual ability to take advantage of the market.

3. Farmers are not accorded any legislation protection and aid that is not given other producers elsewhere in the economy.¹²

The Farm Union believes that the welfare of the nation and of the rural community is best served by the family-farm type of tenure.

Private credit facilities are not designed to establish and maintain the family-sized farm. Functioning on a "business basis", they have assisted in the exploitation of human and land resources and the breaking down of the tenurial system to that of tenancy. Neither insecure ownership nor tenancy are in the best interests of the Dominion.¹³

Our present private credit facilities evolved with the industrial revolution, the expanding frontier and the exploitation of resources. The mechanism operated efficiently, in keeping with social philosophies and drawing spiritual serenity from the teachings of Dr. Malthus.

It has been impossible to utilize these credit systems to the best interest of agriculture. The attempt to finance agriculture by industrial and commercial facilities has assisted soil mining, erosion and insecure tenure.

The first attempt at correcting this situation on a national scale has been made with the Farm Improvement Loans Act. The brittle nature of agricultural credit by commercial banks was thus partially offset by utilizing the broader economic base of government structure.

RECOMMENDATIONS:

A. Production:

1. The creation of a Federal Agricultural Development Bank designed to fit the needs of agriculture, with provincial branches to facilitate operations.

2. Capitalization to be:

A revolving fund by the Federal Treasury and gradually retired by earnings and by virtue of the fact that farm loan associations would subscribe to stock in amounts equal to 5 per cent of loans.

3. Loans to be made through farm loan associations consisting of not less than ten persons who elect a board of directors of at least five members, who choose a secretary-treasurer and a loan committee of three.¹⁴

4. In application for a charter, an affidavit to be included stating each of the organizers is the owner, or about to become the owners of farm land qualified as a basis of development bank loan; and to be accompanied by a subscription to stock in the development bank equal to 5 per cent of the desired loans.

5. Once a new association is set up, a new borrower applying for membership subscribes to stock in the association to an amount equal to 5 per cent of his prospective loan.

6. The borrower's application should be unanimously approved by loan committee and directors; a report to that effect then sent to the development bank which would grant the loan.

¹² Ibid

¹³ See Appendix 2—The Economic Effects of Tenancy

¹⁴ Operation should be such that credit unions should be able to act as outlets, particularly where credit unions are well established.

Security:

17. Joint endorsation. The local association endorses the member's note before it is sent to the development bank. This endorsement has value from the fact that the association owns shares in the development bank equal to 5 per cent of the total loans.

These are purchased out of proceeds from the sale of a like amount of its shares to its own members.

2. In addition, the loan is to be secured by a recorded first mortgage on the land within the district, not over 75 per cent of the appraised value of the land itself, plus 20 per cent of the value of permanent insured improvements.

Repayment:

Amortized payments of principal and interest to extinguish the debt from 5 to 40 years; in addition, the whole or any part may be paid after five years.

Interest to be not more than one per cent above the last issue of development bank bonds.

Who May Borrow:

Persons engaged in, or about to be engaged in, the cultivation of the mortgaged land may borrow. If the loan is to be for cluster or line settlement, the borrower need not live on the mortgaged land.

Purposes of Loans and Rates:

1. To buy apicultural land, equipment, fertilizer and livestock.
2. To liquidate indebtedness of the owner incurred for agricultural purposes.
3. Other general agricultural purposes; rates to be one percent above rates of last issue of development bank bonds.
4. To encourage and develop conservation of soil, water and fodder; rate to be $1\frac{1}{2}$ per cent.
5. Cluster, or closer settlement, and rural housing.

1st year	1 %
2nd year	2 %
3rd year	$2\frac{1}{2}$ %
4th year	3 %
5th year	$3\frac{1}{2}$ %
Thereafter	4 %

B. Marketing Loans to Marketing Boards & Co-operatives:

1. The Federal Agricultural Development Bank would administer loans to co-operatives and regional or provincial marketing boards; these loans to be made to finance the storage and marketing of agricultural commodities.

2. In order to increase stability of supply, some system of forward pricing would be incorporated into the plan.

This is: (1) Forecasting demand and prices for agricultural products handled by the Board to assist in planning production.

(2) If the market price were higher than the price forecast, the difference would accrue to Board reserves.

(3) If the market price were lower than the forecast price, the difference would be made up by Board.

(4) Crop insurance.

Marketing in Depression Times:

Depressions are international in scope, and market prices for agricultural products always collapse ahead of other prices. Farmers are not responsible for this collapse, as consumer demand has a great bearing on the situation.

Under a compensatory plan, the Board would pay market price, plus a fixed percentage of 65, 75 or 80 per cent as decided, of depression prices. The fixing of the subsidy would be done arbitrarily.

The Agricultural Development Bank would be responsible to make sure that rates to boards and co-operatives are kept to the point of nominal profit.

If surpluses accumulate beyond the point of adequate reserves, they would be transferred to the production credit branch to be used in defraying costs.

Subsidization of Production Credit, if any, would be justified by:

- (1) Maintaining agriculture's economic position
- (2) Conservation of soil resources

The Canadian Farm Loan Board, with its present provincial and central offices, could be expanded into the Agricultural Development Bank, perhaps with some joint sharing of Dominion, Provincial and local responsibility.

APPENDIX I

CLASSIFICATION

OF

FARM HOLDINGS

	Manitoba	Saskatchewan	Alberta
Total land area.....	140,622,720	152,304,000	159,232,000
Total Number of farms.....	52,383	112,018	84,315
Farms classified by area of improved land:			
Farms reporting under 3 acres improved:.....	1,171	942	1,184
3- 9 acres improved.....	2,702	1,267	1,833
10- 69 " "	9,076	6,541	10,557
70- 129 " "	8,820	12,739	15,561
130- 179 " "	7,046	12,788	13,018
180- 239 " "	5,830	11,879	9,464
240- 399 " "	11,173	29,961	17,033
400- 559 " "	3,954	17,081	7,301
560- 759 " "	1,761	10,452	4,152
760-1119 " "	642	6,007	2,584
1120-1599 " "	149	1,751	1,043
1600 acres and over.....	59	610	585

FARM HOLDINGS CLASSIFIED BY ECONOMIC CLASSIFICATION FOR PRAIRIE PROVINCES, 1950, AND TENURE 1951

Economic classification	All occupied farms	FARMS OPERATED BY				Manager
		Owner	Tenant	Part owner, Part tenant	Number	
ALBERTA—						
All occupied farms.....	84,315	52,871	9,735	21,098	611	
Commercial farms.....	—	—	—	—	—	
Value of products sold of:						
\$20,000 and over.....	1,231	511	101	561	53	
\$15,000—\$19,999.....	1,015	468	87	445	15	
\$10,000—\$14,999.....	2,828	1,336	307	1,158	27	
\$7,500—\$9,999.....	3,400	1,734	368	1,277	21	
\$5,000—\$7,499.....	7,748	4,127	792	2,786	43	
\$3,750—\$4,999.....	7,762	4,434	783	2,498	47	
\$2,500—\$3,749.....	12,841	7,741	1,276	3,762	62	
\$1,200—\$2,499.....	21,177	13,772	2,248	5,066	91	
\$250—\$1,199.....	12,964	9,156	1,535	2,202	71	
Small scale farms:—						
Value of products sold—less than \$250.....	8,141	5,938	1,458	682	63	
Part-time farms.....	5,118	3,647	775	653	43	
Institutional farms, etc.....	90	7	5	8	70	
SASKATCHEWAN—						
All occupied farms.....	112,018	61,157	16,495	33,760	606	
Commercial farms.....	—	—	—	—	—	
Value of products sold of:						
\$20,000 and over.....	392	117	18	247	10	
\$15,000—\$19,999.....	549	181	43	323	2	
\$10,000—\$14,999.....	2,156	795	194	1,145	22	
\$7,500—\$9,999.....	3,709	1,524	392	1,777	16	
\$5,000—\$7,499.....	10,520	4,700	1,204	4,558	58	
\$3,750—\$4,999.....	11,466	5,475	1,407	4,533	51	
\$2,500—\$3,749.....	20,720	10,691	2,786	7,168	75	
\$1,200—\$2,499.....	33,236	18,885	5,064	9,152	135	
\$250—\$1,199.....	18,772	11,855	3,180	3,677	60	

Small scale farms:—	5,976	4,133	1,211	590	42
Value of products sold—less than \$250.....					
Part-time farms.....	4,376	2,786	986	577	27
Institutional farms, etc.....	146	15	10	13	108
MANTOBA—					
All occupied farms.....	52,383	37,184	5,062	9,780	337
Commercial farms.....	—	—	—	—	—
Value of products sold of:					
\$20,000 and over.....	240	132	11	81	16
\$15,000—\$19,999.....	313	153	19	127	14
\$10,000—\$14,999.....	1,200	620	111	451	18
\$7,500—\$9,999.....	2,115	1,177	222	699	17
\$5,000—\$7,499.....	2,770	3,439	654	1,639	38
\$3,750—\$4,999.....	5,822	3,754	684	1,858	26
\$2,500—\$3,749.....	9,042	6,126	1,008	1,872	36
\$1,900—\$2,499.....	12,824	9,473	1,149	2,149	53
\$1,250—\$1,199.....	7,464	6,004	495	926	39
Small scale farms:—					
Value of products sold—less than \$250.....	4,285	3,611	415	212	47
Part-time farms.....	3,271	2,688	294	265	24
Institutional farms, etc.....	37	7	—	1	29

FARM HOLDINGS BY TENURE AND AREAS, 1901-1951

Item by Province		Unit	1901	1911	1921	1931	1941	1951
1	Total number of occupied farms.....	No.	32,252 ¹	43,631 ¹	53,252 ¹	54,199	58,024	52,383
2	Sask.	"	13,445 ¹	95,013 ¹	119,451 ¹	136,472	138,713	112,018
3	Alta.	"	9,479 ¹	60,559 ¹	82,954 ¹	97,408	99,732	84,315
4	Operated by owner.....	"	28,663	36,385	43,169	37,769	38,954	37,184
5	Sask.	"	12,924	86,109	91,587	90,250	72,954	61,157
6	Alta.	"	9,076	55,688	65,900	70,751	62,366	52,871
7	Operated by tenant.....	"	1,614	4,536	6,053	9,857	10,986	5,082
8	Sask.	"	212	3,497	12,942	21,044	34,093	16,495
9	Alta.	"	211	2,321	8,072	11,808	17,032	9,735
10	Operated by part owner, Part tenant.....	"	1,975	2,710	3,549	6,369	8,367	9,780
11	Sask.	"	309	5,407	13,841	24,737	31,028	33,760
12	Alta.	"	192	2,550	8,253	14,540	19,761	21,098
13	Operated by Manager.....	"	—	—	1,081	204	378	357
14	Sask.	"	—	—	729	441	606	611
15	Alta.	"	—	—	14,615,844 ²	15,131,685	16,891,322	17,730,393
16	Area in farms.....	ac.	8,843,347	12,184,304 ²	44,022,907 ²	55,673,460	59,960,927	61,663,195
17	Sask.	"	3,833,434	28,099,207 ²	29,293,053 ²	38,977,457	43,277,295	44,589,632
18	Alta.	"	2,735,630	17,359,333 ²	10,799,431	9,064,093	9,251,725	10,535,678
19	Area occupied by owner.....	"	—	—	29,981,942	29,848,077	23,660,313	24,381,939
20	Sask.	"	—	—	19,881,553	20,616,694	18,151,638	18,045,051
21	Alta.	"	—	—	1,956,575	2,884,682	3,424,326	1,784,132
22	Area occupied by tenant.....	"	—	—	5,034,293	8,242,504	13,285,130	7,955,274
23	Sask.	"	—	—	5,151,896	5,817,679	7,209,490	4,456,412
24	Alta.	"	—	—	1,881,856	2,974,227	4,043,659	4,989,478
25	Area occupied by part owner, Part tenant.....	"	—	—	7,948,951	17,141,336	21,769,759	27,393,599
26	Sask.	"	—	—	5,222,111	11,736,774	16,863,888	20,070,004
27	Alta.	"	—	—	262,196	208,683	171,412	1,421,085
28	Area occupied by manager.....	"	—	—	1,010,056	441,543	1,245,725	1,932,383
29	Sask.	"	—	—	986,836	806,310	1,052,279	1,888,165
30	Alta.	"	—	—	12,006,671 ²	10,917,126	11,008,541	13,788,328
31	Total area operated by owner ³	"	8,073,894	10,290,538 ²	35,423,585 ²	39,226,472	35,641,592	40,363,086
32	Sask.	"	3,681,261	25,557,276 ²	23,738,294 ²	26,920,603	26,706,328	29,301,589
33	Alta.	"	2,442,204	15,314,783 ²	4,214,559	5,282,781	5,282,781	3,942,065
34	Total area operated by tenant.....	"	769,453	1,893,766	8,599,322	12,446,983	24,319,335	21,300,109
35	Sask.	"	152,173	2,541,931	5,554,759	12,056,854	16,570,967	15,158,043
36	Alta.	"	293,426	2,044,550	82.1	72.1	68.7	77.8
37	Percentage of occupied farm land operated by owner. Man.	p.c.	91.3	84.5	80.5	70.5	59.4	65.5
38	Sask.	"	96.0	91.0	81.0	69.1	61.7	65.9
39	Alta.	"	89.3	88.2	81.0	69.1	61.7	65.9

— To indicate figures are not available.

¹ For comparison with later censuses, deductions have been made as follows: in Manitoba 243 plots under 1 acre in 1901 and 1,278 in 1911; in Saskatchewan 167 plots under 1 acre in 1901 and 317 in 1911 and in Alberta, 7 plots under 1 acre in 1901 and 500 in 1911. In 1911 and 1921, farms on Indian Reserves were not included.

² Area includes only improved acreage on Indian Reserves.

³ Includes "operated by manager".

APPENDIX II

THE ECONOMIC EFFECTS OF TENANCY

It is the purpose of this paper to show that existing tenancy policies result in maladjustments in the efficiency of the rural economy. In studying the efficiency of the rural economy, the following procedure will be observed: (1) Isolate a single farm and see how tenancy affects the entrepreneurial efficiency, (2) Project as many conclusions as possible to the economy as a whole, and (3) Observe the results.

In studying the question, we assume the following:

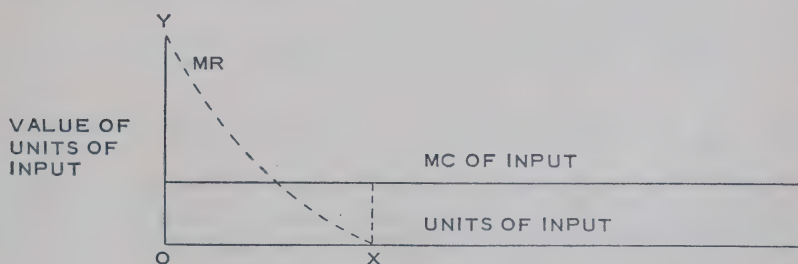
1. All prices are determined in competitive markets.
2. The farmer behaves in a rational way in pursuing the economic end of maximizing his net income.
3. Optimum output of the farm will be obtained when the following principles are fulfilled: (a) the intensity of labor and capital per unit of land area is such that marginal cost equals marginal returns. (b) The proportional combination of factors is such that all factors yield equi-marginal returns.

Considering the single farm, let us first analyze the "owner-operator" type of farm, in which case the following can be assumed:

1. Unencumbered ownership of land and permanent improvements by the entrepreneur.
2. Security in occupancy.
3. His economic purpose in farming is to maximize his income over his lifetime, leaving the productivity of his land resources intact, in anticipation of one of his children carrying on the farm enterprise.
4. His production plans include phases extending over long periods and some might go beyond his life's anticipation.

Since the farmer has full equity in the land and complete managerial control, he is sole recipient of the farm's profit, excess returns over cost. He will therefore apply all factors of production until their marginal cost is just covered by the marginal returns of the farm, and he will so arrange the factors that he will receive equi-marginal returns from all. Also, when this point is reached, it will be seen that the optimum output of the farm will be obtained, because the optimum intensity of production organization of the farm coincides with the entrepreneur's.

This is illustrated in graph 1.



The horizontal axis OX represents the number of units of input (durable and non-durable factors of production) that are applied per unit of land area. The curve MR is the total marginal returns from the farm as a result of application of the units of input. The curve MR slopes down as shown

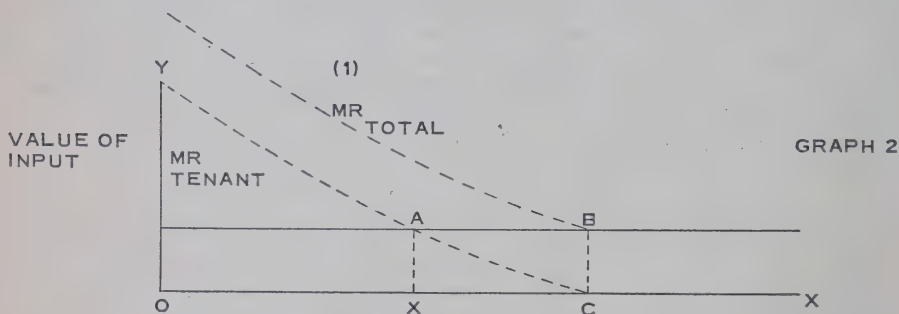
due to the principle of diminishing returns. The vertical axis OY represents the value of units input. The line MC of input is the sum of all marginal costs of factors of production, and is a horizontal line because all prices are fixed in competitive markets. Obviously, the farmer will apply units of input to the amount shown as OX; for at this point his marginal costs and marginal revenue are in equilibrium. The owner-operator will also apply all factors of production until equi-marginal returns are had from all of them, because he has full managerial control; his occupancy is secure. In fact, some of the more durable factors such as drainage ditches, tiling, etc., may require generations before full return is had from them. Such factors would not be applied if the period of occupancy were to be short.

The conclusion can be reached that owner-operatorship is a desirable form of land tenure, because the optimum entrepreneurial efficiency is attained. This type of tenure can be used as a comparison with tenancy.

Because share leasing is the most prevalent type of tenancy in Saskatchewan we have selected it for analysis. For ease in analysis we are assuming the following characteristics of this type of tenure:

1. The lease is short length, generally three and seldom five years in length. (This is the actual case in Saskatchewan.)
2. The lease stipulates that one-half of the crop is the tenant's and the other is the landlord's.
3. The tenant has control over all non-durable factors of production such as labor, seed, machinery, etc.
4. The landlord has control over all durable factors of production such as buildings and permanent improvements.
5. The tenant and the landlord decide jointly what acreage is to be put into crops but other than this the landlord's control over management is restricted to permanent improvements.

Under these conditions, the farm produces less than the optimum. Assuming that the rental is half the crop, the tenant will maximize his income by adding units of input to the point where their marginal cost equals one-half their marginal returns.



The tenant's marginal returns are half those of the total, (2) the landlord getting the other half. Obviously, the tenant makes a present to the landlord if he applies any more units of input beyond the point OX. If he were to produce at the farm's optimum efficiency, he would give the landlord an amount as indicated by the triangle ABC. If competition forces the tenant to do an extra good job of farming as indicated by a higher degree of intensity beyond OX, he is paying a hidden rental for the privilege to remain on the farm. It

(1) Marshall Principles Book VI, Ch. 10.4.

(2) Half share rental.

may be concluded then that when the tenant maximizes his income, he tends to produce at less than optimum. The tenant will also not apply factors of production with the idea of obtaining equi-marginal returns for all, but just the ones he has control over. He will tend to regard the durable factors as fixed, which will result in more rapidly diminishing returns. Also, as he tends to maximize his income over his period of occupancy, he tends to produce more of the cash crops, wheat, cotton (in the States), less of the products which require long periods of time, and less durable factors such as buildings for stock production. Hence the trend is towards the producing of cash crops and not towards animal products. The factors are not applied so that equi-marginal returns are had from all; also enhanced by the insecurity of short occupancy.

The landlord aims at maximizing his rental over the expected time of ownership, which may be long or short, depending on alternative investment, but generally longer than the tenant. The rent is a share of the crop, hence a function of crop yield and price. Obviously, most permanent improvements such as buildings, fences, etc., have little or no effect on the crop yields. The landlord sees no point in spending money on these other than enough to attract competent tenants. Such factors as do reflect on crop yields will be applied only to the point where their marginal cost equals the marginal increment in rent the tenant is willing to pay. As the landlord has no control over non-durable factors, he tends to look at these as fixed, which makes for more diminishing returns of the durable factors (similar to the case of the tenant). An increase in the durable factors involves an increase in the non-durable factors if optimum combination and efficiency are to be had.

The synchronization of these two classes of input is impeded by the division of control between two parties, whose estimates of marginal returns and increment in rent, justly claimed for additional improvements, may differ widely. The divergence between the landlord's and tenant's estimates of marginal returns from improvements tends to widen as more landlords lose, or never had, control over or contact with farming operations.

It may be concluded then that although the tenant and the landlord still maximize their incomes, the total production of the farm will be restricted due to (a) Crop sharing; (b) Division of control over factors of production; (c) Insecurity of occupancy, which also reduces the amount of factors which are applied on production not allowing the tenant or landlord to follow the principle of equi-marginal returns.

In Saskatchewan tenancy is generally a one-third, two-thirds basis, the landlord getting one-third of the crop, and also sharing in the cost of some of the non-durable factors of production. This allows for an increase in efficiency in the farming unit, but the results are much the same because most of the characteristics in tenancy resulting in below optimum production, still remain.

With tenancy, notice the extent to which composition of the whole agricultural product is distorted due to a production organization biased in favour of short period production plans, resulting in too much wheat and other cash crops, and too little in animal products, and forage crops; the utility of the social net product is reduced as a result of tenure conditions. That is to say, if certain tenure characteristics would not prevent the allocation of the productive factors according to equi-marginal returns in various lines of production, a given amount of money could buy a collection of agricultural goods yielding a greater satisfaction to the consumer. Factors now used to produce "surplus" goods (cash crops) could reap higher marginal returns in the production of other goods such as animal products.

Also, the social net product is further depressed by the existence of social costs brought about by tenancy. The first of these is the one which comes because of excessive mobility of tenants. The extent to which the cost of moving from one farm to another is not balanced by a corresponding increase in marginal returns of the labour and capital on a new farm, that constitutes a social cost. A certain amount of movement will be the result of factors seeking highest marginal returns. Any mobility beyond this depresses the social net products of agriculture. Other social net costs caused by excessive mobility are those which are the result of lack of education, social contacts and community organizations.

The second social cost brought about by tenancy is the one caused by soil deterioration. The uncertainty of tenant's occupancy, the lack of his control over durable factors necessary for soil conservation, and the emphasis on erosive cash crops are only some of the factors responsible for the greater ratio of erosion found in tenancy as compared to owner operation. This erosion will have a depressive effect on the social net product of agriculture. Notice that deterioration consists of several elements, such as loss of soil fertility, silting of streams and reservoirs, flood damage, etc.

A third social cost is that which is caused by the displacement of farm families. The problem of supporting these families from the time of displacement until the time they have found a new occupation involves a social cost, regardless of whether this cost is covered by public or private funds.

HOUSE OF COMMONS

First Session—Twenty-second Parliament, 1954

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: DAVID A. CROLL, *Esq.*

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 27

Decennial Revision of the Bank Act

TUESDAY, MAY 11, 1954



WITNESSES

Mr. T. H. Atkinson, President of The Canadian Bankers' Association and Vice-President and General Manager of the Royal Bank of Canada.
Mr. Neil J. McKinnon, General Manager of The Canadian Bank of Commerce.

NOTICES OF MOTIONS

TUESDAY, April 6, 1954.

Mr. Macnaughton—On the clause by clause consideration of Bill 338, An Act respecting Banks and Banking—That Clause 21 of Bill No. 338 be amended by adding thereto the following new subclause (4):

(4) *A person is not eligible to be elected or appointed a director after the first day of July, 1959, if he has reached the age of seventy-five years.*

TUESDAY, May 11, 1954.

Mr. Anderson—On the clause by clause consideration of Bill 338, An Act respecting Banks and Banking—That Clause 88, subclause 5, be amended by:

1. deleting the coma after the word "person" in line 24 thereof and inserting the following: *and concurrently accounts owing to primary producers for the selling price of fruits or vegetables in respect to deliveries thereof within a period of three months next preceding the making of such order or assignment,*
2. inserting after the word "period" in line 29 the following: *and such accounts owing to primary producers for the selling price of fruits or vegetables with respect to deliveries made during the period aforesaid;*
3. inserting after the word "employees" in line 30 the following: *and of such primary producers*

MINUTES OF PROCEEDINGS

TUESDAY, May 11, 1954.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Anderson, Balcom, Benidickson, Cameron, (Nanaimo), Cardin, Crestohl, Dumas, Fleming, Follwell, Fraser (Peterborough), Hellyer, Henderson, Huffman, Hunter, Johnston (Bow River), Low, Macdonnell, Macnaughton, Michener, Monteith, Noseworthy, Philpott, Pouliot, Tucker and Weaver.

In attendance: Mr. C. F. Elderkin, Inspector General of Banks; Mr. G. K. Bouey, Assistant Chief, Research Department, Bank of Canada; Mr. T. H. Atkinson, President of the Canadian Bankers' Association and Vice-President and General Manager of the Royal Bank of Canada; Mr. Arthur C. Jensen, General Manager of the Bank of Montreal; Mr. C. S. Frost, Vice-President and General Manager of the Bank of Nova Scotia; Mr. William Kerr, General Manager of the Bank of Toronto; Mr. Neil J. McKinnon, General Manager of The Canadian Bank of Commerce; Mr. John S. Proctor, General Manager of the Imperial Bank of Canada; Mr. W. T. G. Hackett, Assistant General Manager of The Bank of Montreal; Mr. J. A. Fiott, Assistant to the General Manager of The Bank of Nova Scotia; Mr. J. D. Gibson, Assistant General Manager of The Bank of Nova Scotia; Mr. I. D. Macarthur, Assistant General Manager of The Dominion Bank.

The Committee resumed consideration of Bill No. 297, An Act to amend the Bank of Canada Act, and Bill No. 338, An Act respecting Banks and Banking.

Mr. Atkinson was recalled and further examined.

At 12.50 o'clock p.m., the examination of the witness still continuing, the Committee adjourned to meet again at 3.30 o'clock p.m. this day.

AFTERNOON SITTING

The Committee resumed at 3.30 o'clock p.m. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Anderson, Ashbourne, Balcom, Benidickson, Boucher (Restigouche-Madawaska), Cameron (Nanaimo), Cardin, Crestohl, Fleming, Follwell, Fraser (Peterborough), Hanna, Hellyer, Henderson, Huffman, Hunter, Johnston (Bow River), Low, Macdonnell, Mcnaughton, Michener, Monteith, Noseworthy, Philpott, Pouliot, Stewart (Winnipeg North), Tucker and Weaver.

In attendance: Same as at the morning sitting.

The examination of Mr. Atkinson was continued.

Mr. McKinnon was recalled and examined on the supplementary submission of the Canadian Bank of Commerce with respect to the interest rate on personal loans; the securing of personal loans by chattel mortgage and a definition of a personal loan.

During the course of the examination of the witnesses, Mr. Elderkin answered questions specifically referred to him.

At 5.30 o'clock p.m., the examination of Mr. McKinnon having been concluded, he was retired, and the Committee adjourned to meet again at 8.00 o'clock p.m. this day.

EVENING SITTING

The Committee resumed at 8.00 o'clock p.m. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Anderson, Balcom, Benidickson, Cameron (*Nanaimo*), Cardin, Crestohl, Dumas, Fleming, Fraser (*Peterborough*), Hanna, Hellyer, Henderson, Huffman, Hunter, Johnson (*Kindersley*), Johnston (*Bow River*), Low, Macdonnell, Macnaughton, McMillan, Monteith, Noseworthy, Philpott, Stewart (*Winnipeg North*), Tucker, Weaver and Wood.

In attendance: Same as at the morning sitting.

The Committee completed its examination of Mr. Atkinson and he was retired.

At 9.25 o'clock p.m., the Committee adjourned to meet again at 3.30 o'clock p.m., Thursday, May 13.

R. J. GRATRIX,
Clerk of the Committee.

EVIDENCE

MAY 11, 1954
11.00 a.m.

The CHAIRMAN: Gentlemen, I see a quorum. For the information of the committee we have been unable to obtain accommodation for a meeting on Thursday in this or any other room. This room has been reserved for another meeting. My thought is that we would sit this morning, this afternoon and tonight, by that time I think we could conclude the hearing of the evidence and then we will start on a clause by clause examination of the bills next Tuesday morning and continue to sit on Tuesdays and Thursdays. Our first witness today is Mr. Atkinson.

Mr. FLEMING: Mr. Chairman, may I make the suggestion that we leave until this afternoon the decision as to when we will hold the next meeting. It may be that we will not require a meeting tonight. It may be that if another meeting is necessary we could work it in at a time more convenient than tonight. We would all have a chance to review the circumstances between now and then and in view of the fact that we cannot have a meeting on Thursday we might be able to give consideration to some revised schedule of meetings next week, particularly if there is any suggestion of morning sittings in the House. We may have to do some doubling up to clean up our work here, if that could be done without breaking everyone's back.

Mr. MACDONNELL: I thought, Mr. Chairman, you were only suggesting a meeting this evening if we did not finish with our banker witnesses this morning and afternoon.

The CHAIRMAN: That was my thought. Our witness this morning is Mr. Atkinson. He is here for the purpose of answering questions that were left unanswered or new questions that have arisen in your minds as a result of the evidence that you have heard. Mr. Macdonnell had a question, I think.

Mr. T. H. Atkinson, President of The Canadian Bankers' Association and Vice-President and General Manager of the Royal Bank of Canada, recalled:

By Mr. Macdonnell:

Q. I would like to ask you this question, Mr. Atkinson. We had an interesting suggestion made here—I think it was last Thursday—by Mr. Robinson with regard to an amendment to section 88. Would you be good enough to just outline to us the importance of section 88 from a banker's point of view and then comment on the effect, if any, which the proposed amendment would have in the operation of the section in your opinion?—A. Section 88 was designed many, many years ago and has been in the Act for a long period of time to enable producers and manufacturers to hypothecate the natural products of the country during a processing period and I think it is fair to say it is a section which has worked well and has been of great value in the development of the country.

Q. Could I interpose a question there? Is it a—In the canning industry, which we discussed the other day would the section be used only by the small people or would it be in use by the large canners too?—A. That is a rather difficult question to answer. I have no doubt that some of the large canners do not use it and "large" being a sort of comparative term I would not like

to say that it is not used by any large companies because some company who thought they were pretty large might be using it. It is in general use by canners. I would think that is a fair statement. I would not say it is used by 100 per cent of them but it is in general use.

Q. My other question was, could you comment on the effect of the amendments whereby the grower would have the priority which was suggested for a three-month period?—A. Well, in any restriction of security there must, I think, be a corresponding restriction of loaning because that would create a greater loaning hazard and therefore I think inevitably would create a situation where certain loans would not be considered favourably by the bank concerned. I would anticipate that if that amendment were put in the Act there would be companies who would not be able to borrow at all.

Q. How far would you be able, by further inquiries and by further scrutiny on your own part, to protect yourself if such an amendment became law or would you just feel that the amendment had inevitably greatly weakened your security?—A. I do not think it would be a case of weakening security. It would make security unavailable and therefore would restrict loaning.

Q. You say it would restrict loans because a change in the Act would mean a lessening of security?—A. A lessening of potential security.

Q. Yes, potential security. There is a priority now which you have to face in connection with wage earners?—A. Yes, that is right.

Q. Does that seem to you to be different in principle from a priority to the growers?—A. Oh, I think it is entirely different, Mr. Macdonnell. Wages are normally paid weekly or semi-monthly and therefore there is not a great priority at any particular time as the operation goes on. There is just the residue of wages which have not been paid from the last pay day to the date of bankruptcy so that it is not a particularly burdensome one, whereas a priority such as suggested on Thursday would set aside really the whole basis of the security of the loan.

Q. We talked about section 88 wholly in connection with the canning industry. How widespread, in fact, is it in your business? How common is its use?—A. It is very common in all industries who are using the natural products of the country. I would think, without any question of doubt, the lumber industry uses it to the greatest dollar value. It is very common in all lumber operations and it is common in very very many manufacturing operations.

Q. And would you say that the nature of it is such that an amendment such as has been indicated would cut at the root of its value in every industry in the same way?—A. As I understood the proposed amendment it referred only to the canning industry but if it were made a general amendment whereby products obtained a preference the same as wages have presently, I would say it completely invalidates section 88. There would be no value left in it.

Mr. FLEMING: Could I just point out there that the proposed amendment offers the priority to "accounts owing to primary producers for the selling price of fruits or vegetables."

By Mr. Macdonnell:

Q. That raises this question: you have said, as I understand it, that section 88 is a section which enters into the business of anyone who is processing the primary products of the country?—A. That is right.

Q. Would you think that if the fruit and vegetable growers were given the amendment which is suggested that any other producers of primary products would think they were entitled to the same? Do you think fruit and vegetable growers are in a separate class?—A. I would not regard them as being very much different, Mr. Macdonnell, and I would imagine that if this amendment were made and it was found that canners could still get credit,

other primary producers might ask for the same thing. That, of course, is only an opinion. I think, on the other hand, many people would probably look at the results of such an amendment before they would ask for it.

By Mr. Fraser (Peterborough):

Q. The chief difference is that fruits and vegetables are perishable and the others would not be?—A. That is true, too, but as security I do not think there is much difference. That is, if all natural products were set aside and given a preference, I think section 88 would cease to operate as such.

By Mr. Crestohl:

Q. Are not fishermen in the same category? They have perishable products which must be canned quickly?—A. That is right.

By Mr. Macdonnell:

Q. I just want to go back to the strong words which you used. You said that you think section 88 "would cease to operate as such" in the circumstances outlined. I understood you to say a moment ago that the section had become very deeply inbedded in our business in the processing of natural products. In other words, it enters into many businesses?—A. So much so that I think it is fair to say that it is the only section of the Act which is known by number not only by bankers but by the great majority of the public.

Q. Is it not also true that in the re-numbering that was done care was taken not to re-number that section?—A. That is true for that very reason.

Q. Yes, it is one of the things that is almost worshipped in the banking industry. I have just one other question. It was suggested to me the other day, after listening to Mr. Robinson, that if this became law it might prevent some of the less strong processors from carrying on and I heard the answer made that it would not really matter because it would mean that the strong people could carry on and it would not matter if the small people were frozen out. You have indicated, I think, and perhaps you wish to say more about that, that people who would regard themselves as very substantial find it convenient. Would it be fair to say that if even the strong people were deprived of section 88 by reason of its being changed so the banks felt they could not operate it, that it would hamper their operations? Do you think there would be a wide hampering of the operations of the canning industry if section 88 became law?—A. Inevitably it would seriously affect any canner who is presently using section 88 as the basis of his borrowing and I would certainly like to disassociate myself entirely from any movement which would restrict the prosperity of the small firm.

The CHAIRMAN: Do you have a question, Mr. Fraser?

By Mr. Fraser (Peterborough):

Q. Yes, I have one or two questions which I would like to ask the witness. My first question is in regard to the bankruptcy of a canner. If there were fruits and vegetables at the canning plant, would you seize them along with the canned goods?—A. Do you mean in the event of bankruptcy?

Q. Yes.—A. We would then have title to all the produce in whatever form it might be from raw up to finished.

Q. If the canning plant had a contract with the grower of the produce of his fields, would you be able to go into the fields and take the produce? In some cases they do that, do they not? The canner has a contract for everything on that farm—they give the seed?—A. I would think not, Mr. Fraser.

Q. I see. I am glad to know that. I would like to have your opinion in regard to the Alberta brief and what you think of it?

The CHAIRMAN: No, no.

Mr. FRASER (*Peterborough*): Are we not allowed to ask that?

The CHAIRMAN: No, the brief was presented for your information and consideration, not for Mr. Atkinson's opinion. He is a witness from whom we require information.

Mr. FRASER (*Peterborough*): All right. I have another question, Mr. Chairman, and I do not know whether you will allow me to ask it or not. Perhaps the terms of reference we got yesterday are not broad enough?

The CHAIRMAN: They are very broad in this committee.

Mr. FRASER (*Peterborough*): Could you say whether the banks are in favour of being allowed to loan on chattels on the small loans?

The CHAIRMAN: Just a moment, Mr. Fraser. I should have indicated to the committee that the banks are still discussing the matter of personal loans and that matter will be first on the agenda this afternoon. If you will leave the matter until this afternoon it will be answered then. Mr. Noseworthy?

By Mr. Noseworthy:

Q. To get back to the question raised by the fruit and vegetable growers, Mr. Chairman, is it not true that there is an entirely different set of conditions prevailing in the canning and preserving industry from conditions in other fields which gives them some special significance? Mr. Macdonnel was arguing—

Mr. MACDONNELL: Surely I didn't argue! I just asked questions.

By Mr. Noseworthy:

Q. —was questioning, wanting to know, if this concession was made to the fruit and vegetable growers it would have to be applied to all others dealing in natural products. Are not the conditions which prevail in relation to canning and processing of fresh fruits and vegetables quite different from conditions in any other fields?—A. Well, quite obviously they are different, Mr. Noseworthy, in many ways, but from a security standpoint I do not know just what the difference would be.

Q. Is this the substantial difference in the case of fruits and vegetables: that they represent, to a very great extent at least, the actual labour cost of the farmer himself which brings them into the same category, or very close to the category, of wages and salaries which are provided for under section 88?—A. That would also be true of the farmer who cuts lumber and sells it to a lumber mill, I should think. It would also be true of a fisherman whose main product, I suppose, represents his own labour. It seems to me there is a certain amount of similarity in those various fields.

Q. In other words, you feel the other industries would be affected to the same extent as growers of fruits and vegetables?—A. If they were given the same preference for their goods then the loans processors could reasonably expect from a bank would certainly be restricted in the same way.

Q. To what extent would that security, or that concession if granted, invalidate the security of the banks against their loans? Does this constitute a very large part of the security which the banks receive?—A. In many cases, practically the only security. There are quite a few firms operating with relatively small working capital and if they were not able to hypothecate their inventories they would have little basis for loans.

The CHAIRMAN: Mr. Fleming?

By Mr. Fleming:

Q. Mr. Atkinson, am I right? I always understood that section 88 was, in both the legal and economic sense, the key to the Canadian banking system?

It is the fundamental section of the Act as far as chartered banking is concerned in Canada?—A. Well, certainly in the past. In a growing country with great natural resources it has been the most widely used form of security. Its use is probably getting relatively less as time goes on, but it is still a very important section of the Act.

Q. Why is it growing less? You are speaking now of the use of section 88 in normal banking practice?—A. Other industries in Canada are relatively greater now, I should think, as against the production and processing of natural resources than they were in the early days when it was practically the only thing.

Q. You are speaking now in relative terms?—A. Yes.

Q. We have not had any statement of the position in relation to the proposed amendment taken by the canners themselves. Have you any knowledge of the feeling of the canners in regard to the proposed amendment or its principle? Have you had any views put forward by the canners themselves?—A. I have not heard of or from a canner personally, no.

Q. Are there many cases where the banks have, in recent years, exercised their security under section 88 over the assets of canners who were borrowers from the banks to the detriment of the growers? How extensive has this problem been in the experience of the banks?—A. In my 43 years' experience, I know of only one case in our bank. It was one case which was referred to by the brief the other day.

Q. And is your experience typical? Is the Royal Bank engaged in the area in which fruits and vegetables are grown in Canada on a comparable basis with other banks?—A. Yes, I would think we have our fair share.

Q. The question was raised the other day on behalf of the fruit and vegetable growers as to the responsibility of a bank, or, I take it, a bank manager. The case which was put before us was described somewhat after this fashion, as I recall it: a grower was seeking some advice from a bank, the bank that was lending money also to the canners, and had taken security from the canner under section 88 and although, as it turned out, the canner was virtually on the brink of insolvency or bankruptcy, nevertheless the bank did not see fit to warn the grower concerned. I wonder if you would say something to us as to what your conception is of the responsibility of the banker in a situation of that kind? When I say banker, I mean of course the bank manager?—A. That is quite a delicate question, Mr. Fleming. In the first place we operate under a pledge of secrecy about our clients' affairs and I do not know exactly what transpired in the incident referred to in evidence here, but if you look at it this way—if a company, let us say this canner, was operating in this town and had been operating for a long number of years—had a bank manager made the comment at any time during that period to anybody that he felt this concern was on the verge of bankruptcy I think he would certainly have created a bankruptcy situation. Therefore, a banker would have to be very sure of his facts and very careful before he would dare make such a comment and even if he did he would be breaching the pledge of secrecy which we value very highly. In the particular case mentioned, if my memory serves me right, and this goes back some 18 years—the case I am thinking of was not our case—but my recollection is that the bankruptcy was precipitated by the supplier of the cans taking action in which case I would think, although it was not our bank, that the bank manager had not the slightest idea that bankruptcy was going to be precipitated at that time. He may have known the company was having difficulty going along in its day to day operations but that is not uncommon in many concerns. There are many concerns in Canada that have difficulty in financing from day to day,

so I do not think any reasonable person would expect a bank manager to go around warning people that bankruptcy might take place because, as I say, in many cases that would certainly precipitate bankruptcy.

Q. You have referred to bankruptcy and you made reference also to the case that was referred to before us last Thursday. That was a case, I believe, in which bankruptcy ensued. Are there any other cases within your knowledge where the bank has exercised its rights under section 88 over the pledged assets of the canner in that way to the detriment of the grower but where bankruptcy has not followed for one reason or another?—A. Yes, I can remember one case where we took physical possession of the assets where bankruptcy did not actually ensue and where the matter was worked out to the point that the debts were paid.

Q. Including the claims of the growers?—A. In that event the company was wound up voluntarily and the creditors received 18 per cent.

By Mr. Hellyer:

Q. Mr. Atkinson, about how much did the total assets of the banking system increase in the years 1952 and 1953?—A. That would be in one of the exhibits.

The CHAIRMAN: Would you hold that question for a moment Mr. Hellyer? Mr. Huffman wishes to speak on Section 88.

By Mr. Huffman:

Q. There is just one question. Mr. Atkinson, speaking about fruits and vegetables which in the main are grown under contract, there are other commodities that are grown under contract that are placed in storage or an elevator. Say cereal grains for instance. What is the position of the producer of the cereal grains that are in storage and a bankruptcy takes place?—A. You mean in a situation where the storer has given section 88 security to a bank?

Q. Yes.—A. If he is acting as a warehouseman he cannot give security, under section 88, of the stored goods. He must have ownership before he can give security.

Q. Then if he did it would be fraud?—A. I would say so. If he represented that he was the owner of the goods and could give security on them. I am not sure of the legal term of it, but he would be doing something off colour.

The CHAIRMAN: He would be doing something dishonest.

Mr. CRESTOHL: Is there a central registry kept by the Bankers' Association every time the banks exercised their rights under section 88?

The WITNESS: The intention to give security under section 88 is registered at the relative Bank of Canada office and is available to any supplier who wishes to know whether the person to whom he is selling goods has actually given security under section 88 to a bank.

Mr. CRESTOHL: That would serve as a precautionary measure to the growers if they wished to know whether or not the canners were or were not under section 88?

The WITNESS: Yes. That is written in the Bank Act.

By Mr. Hellyer:

Q. About how much did the total assets of the banking system increase in the years 1952 and 1953?—A. \$548 million in 1952 and \$565 million in 1953 according to the exhibit on page 798.

Q. Is it not possible that the total might increase as much in the years 1954 and 1955?—A. It is certainly possible.

Q. What percentage of bank assets must be allocated to government securities?—A. There is no stipulated amount. That is the prerogative of the management.

Q. There is no statute or regulation which requires the bank to allocate a certain percentage?—A. No.

Q. Then, just how do the banks decide what percentage of their assets to invest in government securities?—A. There is no rule of thumb. Management, of course, is charged with operating prudently. Over a long period of time managements' ideas of what represents prudence have reached a reasonable level of unanimity. But, it can be varied, and, of course, through circumstances the percentage of a bank's assets in government bonds does vary.

Q. Would you know where Mr. Hees might have obtained the information which appears in a clipping from the *Toronto Telegram* Friday, April 23, 1954, which states: "The banks must allocate 45 per cent of their funds to government securities," he said: "the remainder goes to industry and commerce."—A. I think I could make a guess at something for the basis of his comment, with which, of course, I do not agree. Actually, looking at the Royal Bank's statement for last year, government bonds represented 26.3 per cent as at the close of the year and that is, I think, typical of the whole banking picture.

Q. That is slightly different than his 45 per cent which he says they must allocate?—A. In the 45 per cent I think he is including cash, treasury bills, and quite a lot of other things.

Q. Anything else that may have suited his purpose.

The WITNESS: I am not agreeing with that statement.

By Mr. Hellyer:

Q. I will withdraw that. Did you tell Mr. Hees that little money will be available from the banks for the purpose of housing because the funds are tied up in industry and commerce?—A. I would like to look back at my answer. That was some time ago. I would not be inclined to think that I said it in that way, but I do not like to make a definite denial without looking at my evidence. My recollection is that in my submission I said something about a time when the banks were relatively fully loaned. I think that that is the expression that I used, but I qualified it by saying that the Bank of Canada can make available through increasing bank reserves money for loaning if they regard that loaning as in the interest of the country.

Q. Reading again from the newspaper clipping which appeared in the *Toronto Daily Star*, April 3, 1954, referring to Mr. Hees it says he was told by the president of the Banking association that "little money will be available from the banks for the purpose because the funds are tied up in industry and commerce." He does not give your qualification.—A. It is in my evidence.

Mr. FLEMING: It might not be fully reported, of course.

Mr. HELLYER: That is possible.

The CHAIRMAN: I think it is fair to ask Mr. Atkinson about those ads that are appearing in the various daily newspapers signed by the Royal Bank which say: "Money available for mortgages." Are they there for the purpose of having people apply for mortgages?

The WITNESS: I will stand by the advertisement.

By Mr. Hellyer:

Q. This may seem like duplication, but did you ever tell Mr. Hees that industry and commerce would suffer if the banks converted any money to mortgages?—A. Once again I think that my evidence will show that at one stage I said that if conditions in the country were such that the Bank of Canada felt it necessary to contract cash reserves and therefore limit loaning that all

loans would suffer because the banks would have to shorten up loaning in all categories and not necessarily in one category. I think that is what I said at that time.

I will quote from the same article from the *Toronto Telegram*, Friday, April 23, 1954, and this is a direct quotation from Mr. Hees: "I have been told by banking executives that industry and commerce would suffer if they diverted any of that money into mortgages." I just wondered if you could reconcile that statement with Mr. Towers' statement on page 245 of our proceedings, February 8, 1954, where he says in part, in answer to a question by Mr. Quelch I believe: that in conditions of non-inflation he would expect—"I would expect that the over-all credit structure would be sufficiently large to permit the banks to make these mortgage loans without leaving them short in fulfilling the requirements of their other customers." Further down on the page: "I cannot see any prospect of existing customers of the banks finding life more difficult by reason of the banks lending on mortgages." Is it not true, Mr. Atkinson, that if the banking system expands, new money is available for investment in housing as well as in industry?—A. I think you will find that I said almost exactly the same thing. I said that I would anticipate in an economy where inflation was not present that the Bank of Canada would expand cash reserves to take care of any loaning which they regarded as in the interest of the country.

Q. Did you ever say with reference to the amendment to allow the banks to loan on guaranteed first mortgages that the bankers feel that they have been sucked in and do not like it?—A. I think you would have difficulty in finding that I said that.

Q. Again referring to Mr. Hees, he said that the banks were invited into the field for political purposes and then: "The bankers feel that they have been sucked in; they do not like it."—A. I can safely say that I did not say it.

Q. Thank you. Would you agree that this amendment may prove to be a very useful economic tool whereby new money is put into circulation through the housing industry to become disposable income in the hands of the public?—A. I think that can be agreed to.

Mr. CAMERON (*Nanaimo*): Could I rise on a point of order. We have dealt with the Housing Act.

Mr. HELLYER: This is also in the Bank Act. It is an addition to the Bank Act.

Mr. MICHENER: It is not necessary to go back over what Mr. Atkinson said on the former bill.

Mr. HELLYER: This has been a very serious charge and undoubtedly the amendment to the Bank Act has been referred to in very serious tones. A reflection has been cast not only on the legislation, but on the bankers and the people who will administer it.

The CHAIRMAN: Let us have your next question.

Mr. FLEMING: I had not heard any charge levelled at the bankers.

Mr. HELLYER: Do you not think that it is serious to make inaccurate and misleading statements? The banking gentlemen present are honourable men and we should not allow any shadow of suspicion to fall upon them. I think that we should call Mr. Hees, and find out where he got his information and give him a chance to explain his charges.

The CHAIRMAN: I think you have done pretty well this morning.

Mr. HELLYER: That pretty well sums it up. There is just one more question.

Mr. FLEMING: I do not think that the statement should remain unchallenged that there is anything in what has been quoted that would cast any reflection on the bankers. I gathered that the reflection was on the government, not on the bankers.

Mr. HELLYER: I think not. Mr. Hees' own words were to the effect that the whole system was a bluff.

The CHAIRMAN: Please, Mr. Hellyer, have you another question.

By Mr. Hellyer:

Q. Just two more things, Mr. Chairman. I think that it is clear that Parliament anticipates the cooperation of the chartered banks, within the limits of their ability, to make the National Housing Act, 1954, a real dynamic force in the Canadian economy, and we have no reason to believe that such cooperation will not be forthcoming. Is that not correct?—A. I made the statement in evidence that we would do our best to make it work.

Q. The chartered banks already have filed with the Central Mortgage and Housing Corporation thousands of requests for loan amounts, and a tremendous number of these will be followed up with applications for loan commitments and several of the banks are already actively participating under the legislation and most are prepared to do so in a very substantial way. Is that correct?—A. So far as our bank is concerned we are very busy with the legislation at the moment.

Mr. FRASER (*Peterborough*): But not in the thousands of applications.

Mr. HELLYER: Thousands of applications to Central Mortgage and Housing Corporation.

The CHAIRMAN: We are a bit off the beaten path, and I think some of the questions were relevant.

Mr. HELLYER: I think they were too.

The CHAIRMAN: Mr. Cameron.

By Mr. Cameron (Nanaimo):

Q. I do not know whether it is worth pursuing the questions Mr. Hellyer brought up, but I think there is one question that might be asked. I have been trying to find the place in the evidence but I am sure that you will recall where you said in answer to a question to myself that neither you nor your associates had been consulted about the Housing Act by the government. You told us that you had not been consulted, and also at the same time expressed your personal view that you had some misgivings as to whether it was a suitable field of investment for the chartered banks. Is that correct?—A. I am not sure of the words I used.

Q. I cannot locate the exact place. It was on the Housing Act.—A. I think my actual words were: "We would not have sought it".

Mr. HELLYER: But, that you would cooperate to make it work.

The CHAIRMAN: He said that they are cooperating.

Mr. CAMERON (*Nanaimo*): Now, Mr. Chairman, I would like to ask Mr. Atkinson some questions with respect to his view of the responsibility of the government with regard to the banking system. You will recall, Mr. Atkinson, the other day when Mr. Abbott was on the stand I was asking him whether in his opinion the Canadian government could in future permit any chartered bank to fail. You will recall also that Mr. Abbott very skilfully eluded my question—

The CHAIRMAN: No, Mr. Cameron.

Mr. HUNTER: I would object to that.

Mr. CAMERON (*Nanaimo*): I beg your pardon.

The CHAIRMAN: "Eluded" is not a word applicable to a minister, and particularly not applicable to Mr. Abbott's answer. He was very clear in his answers. I think you should use another word.

Mr. CAMERON (*Nanaimo*): I will withdraw the word "eluded" if you wish. As a matter of fact, I was not using it in a derogatory sense at all. I thought he answered my question very skilfully.

Mr. HUNTER: He went further than that. He said very definitely that the Canadian government was not underwriting the banks.

The CHAIRMAN: Will you reword your question?

Mr. CAMERON (*Nanaimo*): Yes. You will recall that Mr. Abbott said while he thought it very unlikely a bank would fail, he said of course the government was not underwriting the banks' operations. Here is my question: if a situation should arise with regard to your bank similar to the one which arose in 1931 when the government of Canada passed an order in council number P.C. 2693, dated the 27th day of October, 1931, to permit the chartered banks, because of difficulties they had got into due to the general depression and difficulties with regard to one specific life insurance company in the country, that a special order in council was passed in these words:

1. That for the purposes of the return provided under section 112 of the Bank Act and schedule "G" thereto, and the annual report as directed by section 53 of the same Act, the chartered banks of Canada shall, until this order is amended or rescinded, value the securities owned prior to the 31st day of August, 1931, at not more than the book value, or the current market prices thereof on the exchanges at the close of business on the 31st day of August, 1931, whichever may be the less, and the securities acquired since the 31st day of August, 1931, at not more than the cost price thereof.

And the second part of the order is:

2. This order shall come into force and effect on the 26th day of October, 1931, shall apply to the returns of the chartered banks as from September 30, 1931, and shall continue in full force and effect until the 1st day of March, 1932, unless sooner amended or rescinded by competent authority.

Now, my question is this, Mr. Atkinson: by that action apparently the government of Canada considered it necessary—and I do not quarrel with their decision to pass an order in council—to come to the rescue of the chartered banks of Canada which had got into difficulties due, I imagine, to no fault of their own. Now, in the possibility of similar situations arising in the future, would you expect the government of Canada to take a similar course as the one followed in 1931?—A. I would be inclined to answer "yes" to that question, Mr. Cameron.

Q. That is to say then, Mr. Atkinson, in the final analysis you consider it is the responsibility of the government of Canada to guarantee the solvency of the chartered banks?—A. Oh, no. My answer does not imply that at all, Mr. Cameron. That was a very unusual situation where the government's action was not to protect the solvency of the banks, but was merely to take a more realistic view of the values of government of Canada bonds rather than to accept a market value which at that time everyone considered was entirely too low and did not reflect the real value.

Mr. TUCKER: I want to ask one question. Did Mr. Cameron read that order in council correctly? He said "Whichever may be the less." Well now, there was no way in which they came to the rescue of the banks. The order said the chartered banks would value the securities at not more than the book value or the current market prices thereof on the exchange, whichever is the less.

Mr. MACDONNELL: There was something after that.

Mr. TUCKER: In other words, what he said—

The WITNESS: I am quite familiar with the order in council.

The CHAIRMAN: Do you have the order in council in full, Mr. Cameron?

Mr. CAMERON: Yes.

The CHAIRMAN: We have not got it here.

Mr. TUCKER: I am thinking of the record, Mr. Chairman.

The CHAIRMAN: May I examine the order in council?

Mr. CAMERON: Yes.

The WITNESS: The answer there, Mr. Tucker, is in the date that was chosen, the 31st day of August, 1931, which was before the terrific break in the price of Dominion of Canada bonds.

The CHAIRMAN: For the purposes of the record, the pertinent portion of the order in council reads as follows:

1. That for the purposes of the return provided under section 112 of the Bank Act and schedule "G" thereto, and the annual report as directed by section 53 of the same Act, the chartered banks of Canada shall, until this order is amended or rescinded, value the securities owned prior to the 31st day of August, 1931, at not more than the book value, or the current market prices thereof on the exchanges at the close of business on the 31st day of August, 1931, whichever may be the less, and the securities acquired since the 31st day of August, 1931, at not more than the cost price thereof.

2. This order shall come into force and effect on the 26th day of October, 1931, shall apply to the returns of the chartered banks as from September 30, 1931, and shall continue in full force and effect until the 1st day of March, 1932, unless sooner amended or rescinded by competent authority.

Mr. Cameron has produced to me a copy of the order in council which is certified as a true copy by Mr. A. M. Hill, the assistant clerk of the privy council. Mr. Atkinson explains the words "whichever may be the less" by pointing to the date which was the 31st day of August, 1931.

Mr. TUCKER: What is the date of the order in council itself?

The CHAIRMAN: The 27th day of October, 1931.

Mr. HUNTER: And between the 31st of August and the 27th of October the great break occurred.

The WITNESS: Yes, it will be remembered that Great Britain went off the gold standard on the 3rd of September, I think it was, just immediately after the date chosen as the more normal date for valuation of securities.

By Mr. Cameron (Nanaimo):

Q. Would you agree that the effect of that order in council was to enable the banks to publish a statement which would not cause alarm?—A. It is pretty difficult for me to go back into the thinking of those days. I was a comparatively junior officer in those days, and I was not involved in any of the discussions.

Q. What other purpose could it have? Is it not the same sort of purpose that now is served by the application of the hidden reserves?—A. In a general way, yes.

The CHAIRMAN: Mr. Elderkin informs me that he has a comment which he thinks might be useful to the committee.

Mr. ELDERKIN: I think the Act requires the banks to publish their securities at not more than market value and in order to do so in some few cases it was necessary to relieve them of that responsibility. In some few cases they could not comply with the Act.

By Mr. Cameron (Nanaimo):

Q. The point I wanted to get is this: quite evidently this government action was considered necessary, and I think rightly considered necessary to protect the—I do not know what word to use—solvency or reputation or the public reputation of the banking system for the purpose of protecting the banking system?—A. To enable them to avoid having to show a very unfavourable statement.

Q. Yes. Was this an instance of the government of Canada coming to the rescue of the banking system which had got into difficulties?—A. I would like to put it another way, Mr. Cameron. It was a method of enabling the banks to value their assets at a realistic value rather than a value dictated by a market which, to say the least, was disorganized at that particular time.

Q. Why would the banks want to do that, Mr. Atkinson?—A. Quite obviously by using market values which were not real values the statements would have looked unfavourable.

Q. And would it have had a bad effect on public confidence?—A. I assume so.

Q. Then it was for the purpose of protecting the banking system that this was done?

Mr. HUNTER: And the depositors.

The CHAIRMAN: Public confidence in our banking institutions in 1931 had a special significance.

Mr. MACDONNELL: Would he agree with Mr. Cameron when he asked the question that he did not disapprove of what had been done and I think he related it definitely to the extremely disturbed international situation at the moment?

The WITNESS: Oh quite, that is what I have said.

Mr. FLEMING: One other point I know Mr. Atkinson agrees with is that the situation and the action taken in the form of the order in council was not due to the banks' fault?

The WITNESS: We were not responsible for the break in the market, certainly not.

Mr. CAMERON (Nanaimo): I just wanted to be clear as to the nature of the action taken and the nature of the implications.

Mr. TUCKER: The suggestion of course is that they came to the rescue of the banks to save them from going into insolvency; All they did was relieve the banks of an obligation to put out a statement in a situation which had descended on them, and on practically the whole world which would have made public apprehension greater. The government did not come to their rescue to help them financially or anything as suggested by Mr. Cameron.

The CHAIRMAN: Mr. Atkinson agrees with your statement, Mr. Tucker.

The WITNESS: Very much so.

Mr. CAMERON (Nanaimo): Perhaps Mr. Atkinson will also agree that the government felt obliged to take action to restore or maintain public confidence in the banking system?

Mr. FLEMING: Not to restore but to avoid damaging public confidence.

Mr. TUCKER: Mr. Atkinson, I suppose you read the brief of the Council of the Farmers' Union, did you?

The CHAIRMAN: Mr. Tucker, I presume your next question will be what does he think of that brief?

Mr. TUCKER: No.

The CHAIRMAN: All right then, go ahead.

By Mr. Tucker:

Q. I just wondered if you read it?—A. I was in the committee when it was being discussed, Mr. Tucker.

Q. And it indicates a feeling that there is a field that is not being covered or given assistance which is required, particularly in respect of young farmers in taking over farms of those wishing to retire and getting started with the result that at least in Saskatchewan there is a tendency for farms to get very large due to the fact that only people with money can expand their holdings and they buy land from those who wish to retire and the young men who would like to stay on the farm cannot buy the land or the equipment necessary to farm it and they tend to move to the cities. So our farms are rapidly becoming very large while people who would like to stay farming are not able to do so. That is recognized as a great problem, at least in Saskatchewan, and I wondered if the banking association has anything to suggest in the way of a solution or a partial solution to that problem?—A. I think that hardly comes under our field, Mr. Tucker. The establishment of new people without money on a farm would not seem to be a banking proposition, really.

Q. Well, I recall when it was suggested that the banks enter the field of intermediate credit and that they be given the right to take mortgages that the banks at that time felt that was asking them to go beyond their traditional field. Now then, is it not possible that the time has come to consider going a bit further again?—A. That field was opened to the banks by government action, Mr. Tucker, and I think I could go so far as to say that any Act passed by the government will be carried out to the best of their ability by the banks.

Mr. FLEMING: Passed by Parliament, not by the government.

The WITNESS: I stand corrected on that.

By Mr. Tucker:

Q. I thought perhaps the bankers as an association might have thought about this problem and might have decided on some policy which might be helpful in that regard. It is a real problem and, after all, you are in the field of providing credit based upon cash reserves which are provided for you by governmental action through the Bank of Canada's establishment and I wonder if you are not filling a field that conceivably you might fill? Then I take it, the bankers would be interested in being of greater service if possible. That is why I asked the question if the banks had any solution to bring forward to this committee concerning that problem?—A. Quite frankly it is a problem we have not discussed to my knowledge, Mr. Tucker.

Q. Well now, after all, I think it is true, Mr. Atkinson, to say that the provision by the Bank of Canada to the banks of cash reserves on which they can, as a system—the banks as a group—expand their loans to the extent of roughly ten times the amount of cash reserves provided for them by the Bank of Canada, that system does enable you to provide credit cheaper than if you had to have money given to you to cover every single loan or investment you make? In other words, if you had to do as the mortgage companies do, before you could loan out money you would have to have some one deposit it with you or loan it from actual reserves that you had, you could not loan money as cheaply as you can under the present system, could you?—A. Oh, I think that is undoubtedly true as a statement.

Q. And other countries in the world have a similar system whereby their central banks or some financial organization provides them with reserves on the basis of which they can extend loans and investments as is the case in Canada. That is true, is it not? Most civilized countries have a system like ours?

The WITNESS: Yes, but there are exceptions of course, as you know.

Q. I wondered about that. Are there countries which get along without a system whereby the banks are permitted to expand their loans and investments beyond the money they actually have on hand?—A. Quite frankly I do not know if I could quote any but I remember the Governor of the central bank stating that in quite a few countries the central banks are rather ineffective due to government action. I have not made a study of that myself but I would think presumably some are in that position.

Q. Well now, I think it is fair to say that the banking system could not provide money to farmers under such a plan as the Farm Improvement Loans Act at 5 per cent simple interest if it did not have the rights that are provided by the Bank Act and the Bank of Canada Act?—A. That would involve an opinion on the brief or the plan which was put forth, I think, Mr. Tucker.

Q. No, I am asking you as a general proposition that you could not provide money as cheaply for such schemes as the Farm Improvement Loans Act, or in the case of the banks which make small loans you could not provide money as cheaply as you do, if it were not for the facilities provided by the Bank of Canada and the whole banking system?—A. It is probably quite true. If we did not have our present system of financial operations, I do not know what system we would have and I do not know what our costs would be. But I would be inclined to agree that in the absence of our present system of the expansion of cash reserves when necessary, any other system would not work as well, I think.

Q. In other words, what it costs to do business is the costs of operating the banks plus the money you pay to your depositors?

Mr. HUNTER: Plus the cost of operation.

By Mr. Tucker:

Q. That is the cost of operation, plus the money you pay to your depositors?—A. Yes, that is it roughly.

Q. And roughly half of your depositors have current accounts. So there is about half the money paid to depositors for interest—about half of your depositors you do not have to pay interest to at all speaking roughly?—A. That is right.

Q. So that on the average you pay out interest at the present time of between one and two per cent to your depositors?—A. On the time deposits, yes.

Q. On all deposits it would be about one per cent, I suppose, taking into consideration both current and savings accounts?—A. Probably rather under one per cent or in that neighborhood, yes.

Q. To me this is very important, Mr. Chairman. I wonder if Mr. Atkinson could get for us the average rate of interest paid to depositors taking into consideration all the deposits of all the banks. I am sure he could get that for the period, let us say, of the last year that is available. Well then, if the cost to the banking system of doing business is around one per cent over and above what you pay in interest to your depositors, as I remember it, including taxes and every other cost outside of the interest paid, that cost is around one per cent, is it not?

Mr. HUNTER: Of what?

Mr. TUCKER: Of the actual volume of business.

The WITNESS: The cost committee of the association reports that using 1953 figures the overall cost of providing loanable funds works out at 3.554 per cent.

Mr. HUNTER: That is the percentage of the amount loaned, is it?

The WITNESS: That is the cost of the money which we loaned, yes.

By Mr. Tucker:

Q. Well now, what part of that is interest paid to your depositors?—A. I think it would be almost impossible to get that information, Mr. Tucker. I do not have it.

Q. Well, could you give us the actual amount of interest paid to depositors by the banking system during 1953? You could give us that information without difficulty, could you not?—A. We could give you the actual interest paid. According to exhibit number 11 the amount paid as interest on deposits for the year 1953 was \$65.7 million but to get an accurate costing you would have to have the average of your deposits over the year rather than just a year end figure.

Q. But you could figure from that, could you not, what share the cost of providing the money was? In other words, that is one of your costs during the year of the banking system?—A. Yes.

Q. So you could easily figure out, by having one of your good accountants work on it, what share that was of the 3.554 per cent the cost of loans made?—A. I could try and get in touch with the costing committee and see what they could give us on that, Mr. Tucker.

Q. I would like to get that, Mr. Atkinson, because it bears on the question that I have in mind as to whether you should not use the banking system to provide credit in this field that I have mentioned, at least to bear some of the burden of providing that credit, and if the cost to the banks of money and credit to them is very low, as I think it is, under one per cent, quite obviously it is clear to me we are not making as much use of the banking system in meeting this great problem as we should. In other words, I am suggesting that the time has come to take another step ahead. We should expect the banks to enter the long-term lending field to help to meet this great problem and I would like to have that figure, the cost of money to the banks, because under our system the cost of money to the banks is lower than it is to mortgage companies or trust companies or anybody else. I am satisfied with that. That is one thing I would like to have the figure for, Mr. Atkinson.—A. We will do our best to get it for you, Mr. Tucker.

Q. I would like to deal for a moment with the effect of the proposal of Mr. Maynard that from now on expansion of credit by the banks in the way of the purchases of securities or further loans should be on the basis of 100 per cent cash reserves. You must have some opinion as to what changes that would involve in the banking system. I might mention a couple of them: the increased charges the banks would have to make for carrying accounts, the increased rates of interest that would have to be charged to borrowers, and the increased supervision the Bank of Canada would have to maintain over the banks in regard to their loans and investments. Now, would you care to comment on that, Mr. Atkinson? I am interested in hearing any remarks you might make because this is a proposal that is made seriously by a lot of people, that this idea of the banks being able to make loans and investments to the extent of ten times the cash reserves provided for them by our system, is not a good thing. Now, I think it is a good thing as it results in providing interest and credit at low cost to farmers and fishermen and people engaged in industry, but you are representing the bankers here and I think you should make a comment on it concerning what you think about it.—A. Inevitably the application of any 100 per cent reserves, be it a complete 100 per cent reserve from scratch, let us say, or to take effect at any particular level, say today's level, would inevitably restrict the profits of the banks and increase their expenses due to the servicing of the deposits over and above the level agreed above, and from there on I agree completely with you that it must of necessity involve additional charges to give the banks sufficient income to do that servicing job.

Q. Now, that brings up again the question that the cost of money to the banking system under our present system as compared with a system where the banks have to get a dollar for every dollar they loan out, as would be required under the 100 per cent reserve system—it raises this whole question, if you say it would cut down the profits of the banks—A. I should have said the earnings, Mr. Tucker, not profits.

Q. Well, now, if the banks are making more earnings than they need to get along with, do you think it would be better for its earnings to be cut down by reducing the rate of interest or by moving towards the 100 per cent reserve system?—A. We have just recently answered your problem to a degree by increasing the rate of interest to depositors by the sum of almost \$20 million in the next year.

Q. Well, that is a question, Mr. Atkinson. I suppose the reason that decision was made was because you felt you had the profits or the earnings that you could afford to pay this higher rate to depositors?—A. We felt we could afford it, yes.

Q. And I must say that the thought occurred to me at the time that it might have been better for the rate of interest to borrowers to have been lowered rather than the rate of interest to depositors having been raised. In other words, the lower the interest rate to borrowers for the development of the country, the greater advantage there is for them in competing with producers in other countries. Now, were the two weighed against each other?—A. Yes, very much so. It was a decision arrived at after a lengthy discussion which was not at all unanimous and I think I can safely say was forced by a strong view which those who were not in favour had to follow.

Q. And I suggest it was dictated to some extent by the thought that you were earning profits that you could not justify and so you thought you had better distribute them among the depositors?—A. I would not like to agree with your statement exactly as it is worded, Mr. Tucker.

Q. Your profits with the rising volume were something you figured you would have to answer for to this very committee when you came up before us for the revision of the Bank Act?—A. We were probably not unaware that we were coming before this committee, Mr. Tucker.

Q. That policy of providing interest as cheaply as possible to government and to industry of all kinds, primary and secondary—the easy money policy which was adopted away back about 18 years ago—it was part of that policy that interest to depositors should be reduced from 3 per cent to 1½ per cent because one of the basic substantial costs of providing credit was the interest you paid to your depositors—that is correct, is it not? The rate of interest was reduced from 3 per cent to 1½ per cent?—A. That is correct. I think it was done in two reductions and not all at one time.

Q. This decision that was made to pay out some of your profits in increased payments to depositors rather than reducing your over-all interest charge was a decision of the bankers alone, was it not, or was the government brought into the making of that decision in any way?—A. No, the government were not consulted at all.

Q. It was the decision of the banks themselves?—A. Definitely.

Q. Now, just to go back to this other question, Mr. Atkinson, what effect do you think the proposal Mr. Maynard made would have on your earnings and upon the rate of interest that you would have to charge on your loans? I refer, of course, to Mr. Maynard's proposal that from now on we go on the 100 per cent reserve system?—A. That is a very difficult question to answer, Mr. Tucker, because in my thinking you have to take into consideration the effect on the prosperity of the country which such a thing would bring about, and you could not, I think, start your calculations on the basis of today, because such a move, I would think, would have terrific repercussions which

no man could judge at the moment. The question would immediately arise, of course, which you yourself have raised as to whether the central bank would make all the rediscount available which our banks would need to take care of their loaning requirements and at what rate they would make it available. In conclusion, I can only say I can get nowhere in my mental calculations as to what effect such a proposal would have.

Q. I believe I suggested that it would be very interesting to the committee if a calculation were prepared during the Easter recess concerning the overall effect of a reduction in the maximum rate of interest permissible if it were reduced from 6 per cent to $5\frac{1}{2}$ per cent and to 5 per cent. Have you done as I suggested? I have looked in the record and I did not find it. What effect would that have upon the earnings of the banks; have you got those figures?—A. We have prepared a brief on that, Mr. Chairman. Would it be your wish that we read it into the record?

The CHAIRMAN: Yes, I think so.

The WITNESS: Mr. Tucker has requested that we deal with the effect upon bank profits if the maximum rate of interest permissible were reduced from 6 per cent to $5\frac{1}{2}$ per cent and to 5 per cent. It would not be possible to give a conclusive answer to this question without making an elaborate analysis of the loans of all banks over a period since the percentage of loans in each interest category is not static but fluctuates from day to day over the course of a year and it would be necessary to work out averages to determine the effect of the reductions suggested. It would take considerable time to compile this data.

*It may serve Mr. Tucker's purpose if we make some observations on the considerations which go to determine what a proper rate of interest is. There are three basic factors involved.

- (1) Cost of funds used.
- (2) Work entailed in making and servicing specific types of loan.
- (3) Assessment of the relative risk.

The cost of funds used can be fairly readily determined. It is the cost of administering these funds—interest paid to the public and the cost of processing the relative deposits. The latter includes the cost of salaries, premises, equipment, stationery, etc.

Work entailed in making and servicing of different types of loans varies quite markedly. Some loans require considerable documentation such as section 88 loans where several security forms are required, farm improvement loans with their attendant security forms and so on. Then there are the salaries of loan officers and the other department costs similar to those of the deposit department.

Apart from these costs there are overhead costs such as taxes, heat, light, etc., which have to be absorbed.

The question under consideration is not new. It may be of interest to you to hear what the Royal Commission on Banking and Currency in Canada, headed by Lord Macmillan had to say on this subject when the legal maximum interest rate on bank loans was 7 per cent. On page 73 of the commission's report and recommendations there appears the following:

252. On the one hand, in support of the retention of the provision, it has been argued that the purpose which parliament had in view in originally enacting the subsection still subsists; that the banks should not make loans involving such risks as to warrant the charging of more than seven per cent; that higher rates than seven per cent constitute a burden too heavy for agricultural activities to bear; that although competition exists in the services extended by the various banks it is not manifest in the rates of interest demanded from borrowing customers,

particularly from those engaged in agricultural pursuits and that in consequence parliament was justified in enacting a maximum rate of interest. On the other hand, in support of the repeal of the provision, it has been argued that there are circumstances in which, if regard be had to the risk and to the cost of providing credit, a charge in excess of seven per cent is warranted; that the enforcement of a rigid maximum loan rate of seven per cent would so restrict business as to necessitate the closing of a large number of small branches, especially in newly-settled districts, and thus deprive many communities of banking services except at the expense and inconvenience of long journeys; that a charge of, say, one per cent in excess of seven per cent is a small matter to the customer, representing only two and a half dollars on a loan of five hundred dollars for six months while to the banks it may make cumulatively the difference between being able to carry on a branch in a particular district or closing it down; . . . that if the banks were unable to lend at rates over seven per cent where such charges were justifiable in view of the risk, many borrowers, owing to the banks' inability to accommodate them would be driven to money-lenders not under the same restriction; that to deprive borrowers, who are willing to pay more than seven per cent where such charges are justifiable, of the opportunity of obtaining loans from the banks would restrict their freedom and often prevent them from engaging in profitable enterprise.

253. We have carefully weighed these considerations but unfortunately have not been able to reach agreement as to the recommendation which we should make. Four of us (The Chairman, Sir Charles Addis, Sir Thomas White and Mr. Beaudry Leman) are of opinion that a statutory maximum rate of interest is nowadays anomalous and an undesirable interference with freedom of contract, and that the provision of the Bank Act limiting the rate of interest to seven per cent, whatever justification it may originally have had, ought now to be repealed. . . .

That is the end of the quote. I submit that a spread in lending rates on ordinary loans of from $4\frac{1}{2}$ per cent to 6 per cent is a very small one and should not be further reduced. The inevitable effect of reducing the margin between prime and maximum rates would be to deny bank loans to a considerable group who for lack of more appropriate description might be termed marginal risks.

I realize the figures which you would like are not there, Mr. Tucker, but it is just impossible to get them.

MR. TUCKER: Yes, I can understand it would be difficult, because a lot of your loans would be made at less than the maximum rate.

THE WITNESS: Oh, yes. Now you said that the cost of money was 3.554 per cent of the actual money obtained.

MR. HUNTER: Or money loaned.

By Mr. Tucker:

Q. Would it be money loaned or money obtained?—A. That is the cost of money available for loaning.

Q. What would be the percentage on the money loaned? What percentage do you receive?—A. The average rate on loans and discounts is 4.70 per cent.

Q. And on government bonds and so on it is what?—A. I do not think that has been compiled.

Q. The 4.70—that is not on all loans and investments?—A. On all loans and discounts, not on investments, no.

Q. Have you the figure as to the actual percentage of receipts on which you have to pay taxes and so on?—A. You mean the total earnings of the bank?

Q. Yes, the percentage.

Mr. HUNTER: Percentage to what?

By Mr. Tucker:

Q. The percentage which you receive on your loans and investments. The cost of your money was 3.554; what were the actual receipts, the percentage received on your loans and investments?—A. I think we may be getting off the track a bit. The 3.554 is the cost of money which is loaned in loans and discounts, not the cost of money which is invested.

Q. That is for loans only?—A. That is for loans only.

Q. So that you have this percentage which applied towards profits; would it be the difference between 3.554 and 4.70?—A. On the loan business of the banks that is the margin of profit, 1.15 percent, that is before losses and taxes, of course. The cost quoted is only the actual administering cost.

Q. 1.15?

Mr. HUNTER: That is before losses, is it not?

The WITNESS: That is before losses and taxes.

By Mr. Hunter:

Q. You do not consider losses as part of the cost?—A. We do not include taxes as part of the cost because taxes are calculated after your profit is established.

Q. Are not losses considered as part of the cost?—A. We segregate them.

By Mr. Tucker:

Q. I would like to have a similar figure for investments, that is for the purchase of bonds and so on, government bonds.—A. I will try to get that for you at noon. I have not got it here.

Q. I am particularly interested; I do not know how you segregate the cost of money for loans and the cost of money for bonds and investments. How do you segregate them?

Mr. HUNTER: It is a pretty problem in cost accounting.

The WITNESS: Quite frankly we have a cost committee which works in a most mysterious fashion. I would not attempt to describe how any costing people operate. I do not know the details of it.

By Mr. Tucker:

Q. What would be the cost of the money that you use for loans? Would it be different from the cost of money which you use for investments?—A. Very definitely, because the cost of money for loans includes all your loaning personnel. There is a much greater overhead to provide money for loans than to provide money for investments where it is done in large amounts and by a very much smaller personnel.

Q. If you have got the cost of providing money for your loans doubtless your committee has the cost of providing money for investments.—A. I expect to get it for you at noon.

Q. Would you also get for us the actual profit before losses and taxes on your investments?—A. I hope to be able to get that.

Q. In these investments, could you distinguish between investments in government bonds and investments in industrial bonds and so on, or are they

all lumped together?—A. Once again I am not sure of the operations of the costing committee. I would imagine that they are lumped together but we will see what they have.

Mr. HUNTER: While you are on this, could you find out just what percentage of the cost of operation of the local branch would be included as cost of money loaned? It is an interesting point in cost accounting.

The WITNESS: We shall attempt to get that, Mr. Hunter.

By Mr. Tucker:

Q. I wish to ask a question or so in regard to the "Farm Improvement Loans Act". I wonder if you could tell us what is the average length of loan made under that Act?—A. The statistics as to that Act are compiled by the department in Ottawa and we are just looking in this pamphlet for them. I do not think that particular thing is included.

Q. I do not think so. I just thought that you would have it in your records.—A. We have not got the actual figures. The great bulk is for agricultural implements, and I think I can say that most of them are for the full period of three years which is permitted under the Act.

Q. You say that the great bulk is for a period of three years which is permitted under the Act.—A. Yes.

Q. Now, what has been the policy of the banks under the present situation where there is a delay in the delivery or marketing of grain in western Canada. What policy has been followed in regard to renewing those loans?—A. So far as I am aware in the head office we have had reported no difficulty with payments as yet. It may be a little early to see the results of the delay in the marketing of grain.

Q. Have you any difficulty where you find that the farmer would like to have a renewal? What is the attitude taken in regard to renewals? What length of time do you renew for?—A. That is something I would need to find out. I am not in day to day contact with this. Of my own knowledge I simply do not know.

Q. Do you know if there is any difficulty with the department if renewals are given for, let us say, a period of two years?—A. I could only make a general observation. I am told by my loaning officers that they work very harmoniously with the department and find the department very considerate.

Q. Can you give us any figures for the banks as a whole as to the length of extensions that are being given? I mean, whether extensions are six months or one year or two years, or just what the policy is in that regard. There must be a sort of general policy on the part of the banks, is there not?—A. I do not think so. I think each situation is dealt with on its merits. But I will try to get in touch with our Saskatchewan people at the noon recess to find out something about that.

Q. Now then, have the banks formed any judgment about that maximum period of three years as to whether when originally set it was a sort of new venture, this going into intermediate credit, and whether or not it has worked well, and if it might now be extended to five years, and leave the discretion to the banks as to the period of the loan up to 5 years.—A. We have had in the head office no suggestion as to any change. Once again, if I can get our Saskatchewan supervisor on the telephone I will see if he might have some idea on that.

Q. Have you got any idea of the total value of the free services which you give to the federal government? Have you prepared anything on that subject, of the value of the free services?—A. We have submitted figures to the finance department upon occasion, in an attempt to get some recompense, I might say.

Mr. HUNTER: And were you successful?

By Mr. Tucker:

Q. This is one of the things that has to be taken into consideration in regard to any proposal for cutting down the earnings of the banks; and I wondered if you could give us what you thought was the value of the free services given by the banking system to the government?—A. We will put that on the list for this afternoon.

Q. Now then, there is a question that came up towards the end of the sittings just before Easter, the question of small loans. Do you want to go into that now?

The CHAIRMAN: No. Leave that for this afternoon, Mr. Tucker, please.

MR. TUCKER: If Mr. Atkinson could get these figures which have been asked for, I might want to ask him a few questions on them.

The CHAIRMAN: Yes. Now, Mr. Mitchener, will you be long?

By Mr. Michener:

Q. I have just one question, Mr. Chairman, and it arises out of an earlier answer which Mr. Atkinson gave.

If the amount forthcoming from the chartered banks under the new housing act for mortgage loans was insufficient to meet the demand, there was a suggestion that the Bank of Canada might take some action to make more credit available for that purpose; and I wanted to ask you how that could be done? What would be the machinery of it? Just how would you go about it?—A. If the central bank thought that the cash reserves of the banks were insufficient to carry on the loaning business which was available, then they would, conventionally, buy in Dominion of Canada Bonds to provide cash reserves on which new loans could be based.

Q. That involves the banks being willing to sell the bonds?—A. It does not matter whether the banks are willing or somebody else is willing. The result would be that the cash will come into the banks.

Q. That would be an independent action on the part of the Bank of Canada?—A. It would be completely independent.

Q. If it saw fit to do that; then does the bank take such action for the express purpose, or has it done so in the past?—A. Of increasing reserves?

Q. Yes.—A. Oh, yes; it is a very normal method of operation.

Q. And if they do it for that purpose, would the next step be to advise the Department of Finance that they felt more resources should be made available for mortgage loans. They are normally following that position?—A. We suddenly find that cash becomes easy or tight, as the case may be—

Q. So there is control there from the central bank?—A. They have a very definite control.

Q. Which would make more resources available for this particular purpose which we are discussing?—A. They would not normally indicate the purpose nor would they indicate that they were making more reserves available. We would suddenly find cash had become easier. We might or might not know that the Bank of Canada had taken action of buying bonds to make it easier. It would be unlikely that they would say to us we have made cash reserves available for the express purpose of helping you to make mortgage loans.

Q. Is there anything inflationary in that action?—A. The increase of reserves, and, therefore, the increase of loans and deposits which naturally follow are on the side of inflationary action, yes.

Q. Then if the banks made what additional credits they had available for loans, that would be, of course, a matter for the banks themselves?—A. That is right.

The CHAIRMAN: Gentlemen, we will adjourn until 3.30.

AFTERNOON SESSION

The CHAIRMAN: Gentlemen, I see a quorum. I first wish to table a submission from the Canadian Bank of Commerce on the proposed amendments to the Bank Act having particular reference to personal loans. Copies of the submission have been in your hands for a day.

Mr. FLEMING: I have a short subject on which I would like to ask one or two questions. I touched on this, I think, in Mr. Atkinson's evidence when he previously appeared before this committee as a witness. You are familiar with the amendments that the present bill proposes to make in the Bank Act. Have you any comments on behalf of your association to make on the amendments?

Mr. T. H. Atkinson, President of The Canadian Bankers' Association and Vice-President and General Manager of the Royal Bank of Canada, recalled:

The WITNESS: No, the amendments have all been looked at by the banks and are acceptable to them.

By Mr. Fleming:

Q. Do you consider them all desirable?—A. Yes.

By Mr. MacNaughton:

Q. Including my suggested amendment?

The CHAIRMAN: That is not a government amendment.

Mr. FRASER (Peterborough): Could I ask a question?

The CHAIRMAN: Surely.

By Mr. Fraser (Peterborough):

Q. Were any of these changes put forward by the Bankers' Association?—A. Oh yes, quite a few of them.

Mr. FLEMING: Which ones were and which ones were not?

The CHAIRMAN: There are far too many of them.

The WITNESS: That would take a long time.

By Mr. Fleming:

Q. I am not thinking of the whole series but I was thinking about the half dozen principal ones, those which were singled out by the minister for mention in the House in his speech on the second reading.—A. The only one I can think of is that which enables us to take security on oil which is completely new and which was not in the old Act at all. That is the only important one I can think of that the banks put forward.

Mr. ELDERKIN: And the one concerning seed potatoes?

The WITNESS: Yes, seed potatoes.

The CHAIRMAN: Mr. Hellyer?

Mr. HELLYER: On one of the returns, Mr. Atkinson, the total bank loans were broken down into various categories, call loans and time loans and this type of thing, but there was no figure as to the percentage of government of Canada guaranteed loans to the total loans. I wonder if you could give us that figure?

The CHAIRMAN: Was that the figure Mr. Tucker was interested in?

The WITNESS: I do not think so. The proportion of bank loans as of December 31, 1953 which were under government guarantee was .90, slightly under one per cent.

By Mr. Hellyer:

Q. Less than one per cent of your total loans?—A. Yes, that is the amount effectively guaranteed by the government of Canada.

Q. Mr. Chairman, I asked this morning about personal loans.

The CHAIRMAN: Please hold your questions on personal loans. We will have Mr. McKinnon of the Canadian Bank of Commerce present his submission and then we will recall Mr. Atkinson. There are a few other gentlemen who have questions on that aspect.

Mr. FRASER (*Peterborough*): I have another matter I would like to bring up.

The CHAIRMAN: On personal loans?

By Mr. Fraser (Peterborough):

Q. No, I will hold my question on that subject. I noticed in the press of yesterday, I believe, that one of the chartered banks in Canada is going to give life insurance policies with savings deposits. Now, how will that work out or have you any idea how that will work out?—A. All I know is what you say, Mr. Fraser. I saw the ad. The general manager of the Bank of Nova Scotia is here. He would know more about it than I would.

Q. I was just wondering how this was going to work out and whether you were helping the insurance companies or stepping on their toes?

The CHAIRMAN: They are undoubtedly helping the banks.

By Mr. Fraser (Peterborough):

Q. I know they would be helping the banks, but I just wondered how it would work out.—A. I haven't the foggiest idea. I have not even looked into the scheme. I glanced at the ad and that is all I know of it.

Mr. HUNTER: I want to know about the small loans.

The CHAIRMAN: That is a question for Mr. McKinnon to answer.

The WITNESS: Mr. Hunter asked a question this morning in connection with our costing on the loaning business as to what proportion of the overhead in a small branch is calculated in that. Twenty-five per cent of the overhead of the branch is calculated as pertaining to the loaning business. That is overall, for all banks.

By Mr. Hunter:

Q. That is 25 per cent of the average branch?—A. Yes, for all branches.

Mr. Neil J. McKinnon, General Manager of the Canadian Bank of Commerce, recalled:

The CHAIRMAN: Gentlemen, Mr. McKinnon appeared before the committee sometime ago, you have had a copy of his submission. The purpose of his being here now is to answer questions. I think Mr. Follwell has some questions on the submission on personal loans.

SUPPLEMENTARY SUBMISSION BY THE CANADIAN BANK OF COMMERCE

It is suggested that consideration be given to a provision in Bill 338 for a charge on personal loans, sufficient to offset costs (including an adequate measure of advertising), and afford a reasonable profit. The charge should be simple to express, to understand and to apply, and it should be enough to assure

continuity of a personal loan service, provided the service is conducted under efficient methods and organization. A rate of interest of one-half that now sanctioned for small loan companies may meet these requirements.

It is also suggested that section 75 of Bill 338 be amended to enable chattel mortgages to be taken as security, subject to the exemptions as recorded in section 78. The following might be considered:

75. (1) The bank may

- (c) lend money and make advances upon the security of and take as security for any loan or advance made by it, lien or other notes, conditional sale contracts and any instruments or agreements made or entered into respecting the sale of goods, wares and merchandise and all rights and interests therein provided, and mortgages or hypothèques upon any personal or movable property, but no such mortgage or hypothèque is effective in respect of any personal or movable property that at the time such mortgage or hypothèque is taken is by any statute or law that was in force on the 1st day of July 1923, exempt from seizure under writs of execution;

The following is suggested as a guide to a definition:

"Personal Loan" means a loan which is

- (1) made to one or more individuals;
- (2) repayable in approximately equal instalments at intervals of not more than one month each;
- (3) administered by a separate department of the bank confined to the administration of Personal Loans;
- (4) not in excess of \$3,500; and
- (5) unsecured or secured only by chattel mortgage or the obligation of endorsers or guarantors.

The limit of \$3,500 is suggested as a result of the practical experience gained in the operation of the personal loan plan of The Canadian Bank of Commerce.

By Mr. Follwell:

Q. Yes. Mr. McKinnon, I have looked over the supplementary submission of the Bank of Commerce and would like to ask a few questions. What I am primarily concerned about is an individual like myself, a businessman in a small city. I am interested in what protection I would have from paying a higher rate than I would normally be required to pay if you were given the right to charge more than 6 per cent?—A. We have been searching for some time for some sort of practicable basis in order to deal with that particular question. As you perhaps remember, this matter was brought up in the 1944 revision of the Act. At that point there was a proposed revision and it lost out because there was not any specific protection which was available at that time, although I do recall one comment that if the personal loan plan was set up in a separate department, such as is now operated by the Canadian Bank of Commerce, that it might meet the objection. In our own particular plan we do not permit any loan to go in the books of the personal loan department that carries any security with it apart from a guarantor at the present time. Our scheme of accounting is such that the local branch bank will make a greater profit on its own books out of the loan if it makes it on its own books on the rate of 6 per cent as compared with directing it to the personal loan department, so it is an incentive to the local branch manager to make the loan if he can properly do so. As indicated in our brief, we have kept up a careful study to see what was happening in our branches vis-a-vis the personal loan department and I think it has been demonstrated here the volume of the business

in the branches has been well maintained and the volume of business in the personal loan department is over and above what we would have done had we not had the personal loan scheme.

Q. Well, Mr. McKinnon, is the objective of giving chattel mortgages to banks to enable them to make loans to wage earners as opposed to businessmen?—A. Our present personal loan plan indicates that the loans are largely made to wage earners; predominately made to wage and salary earners. If chattel mortgages are adopted by the Committee on Banking and Commerce, there will be an opportunity then for us to perhaps in many cases take a chattel mortgage instead of asking for a guarantor. In other words, we would move into an evolutionary plan of development to endeavour to build up a volume of personal loan business, which would be an advantage to the people using that service.

Q. Would you agree that under this arrangement the chattel security normally would consist of furniture and other chattels owned by an ordinary wage earner?—A. I am not going to suggest at this stage just what form the development would take. We are all aware that the small loan companies do a very large volume of business against chattel mortgages, household furniture, and a great many other chattels as well, including household equipment and appliances. We feel that if this facility were included in the Bank Act we would then move into the field to a certain extent. I am not going to suggest that it is going to be developed to a major extent overnight. It will likely develop over the passing years. As you know, our thought has been a very much lower rate of interest than the small loan companies are entitled to charge. It might well turn out that higher rates are necessary in connection with very extensive loans against them, we do not know that to be the case. We feel we can do a worthwhile volume of business over the years. It certainly is not going to be by any means on the security of household furniture. There may be initially very few cases of that kind. We might be taking chattel mortgages on household equipment and appliances, but our suggestion at least provides a framework in which we could attempt to evolve with the development of this plan.

Q. Well, Mr. McKinnon, if we should have depressed times again, which I hope we never will, would that put the banks in the position where they are in the household furniture and used appliance business, do you think?—I do not expect that, no. I think you are aware that the small loan companies very rarely have ever seized household furniture. We would never expect to be in that position.

Q. Then you would not think that this would be a good business in which you might invest depositors' funds?—A. Yes, I do believe it to be a good business on this basis, that if you can do a large enough volume of this business spread over a large number of people you can apply what is in effect the insurance principle. Your loans are basically made to people because you are confident they are both willing and able to repay you. Your security is definitely a secondary consideration but the ability to take chattel mortgages does or will, we expect, enable us to eliminate the necessity of guarantors or endorsers in many cases and perhaps extend this field of operation in a gradual way. In other words, we expect to walk before we run.

Q. Would there be any limitation for the purpose for which money is to be borrowed under this plan?—A. Limitation as to the amount of the loan?

Q. No, the purpose. For instance, could there be a loan negotiated under your personal loan plan for the purpose of my purchasing a TV set and then pledging the television set to you as a chattel to secure a loan?—A. I should think that would be possible but the main consideration is the credit status of the borrower, of course.

The CHAIRMAN: When you set the limit of \$3,500 I presume you had in mind the automobile did you not?

The WITNESS: We certainly have no intention of going into the automobile finance business, because that is a highly specialized field and demands higher rates than we are suggesting now. Anyone who knows something about the automobile finance business would be aware of that and it involves repossession of used cars and so forth. A limit of \$3,500 has been actually established just because we have a certain number of loans in our plan between \$2,500 and \$3,500. Now, the limit could be set lower, but we are thinking forward over the next 10 years and if a limit of this kind might be considered by the Committee on Banking and Commerce as too high or too low, we are not particularly wedded to it, but we feel that if a plan of this kind should be adopted, it should be put into practice with a limit on the amount which can be borrowed during the initial period.

Q. Are you suggesting that the value of the dollar would be less, and we would have to borrow more money to get the value of the loan?—A. No, what I have in mind is that it is difficult to foresee the future.

Q. I was interested in finding out who would make the decision concerning a loan. Supposing a chap came in to borrow; who would decide whether he goes into the category of a 12 percenter or a 6 percenter, and how does he go about making the request? Would he have to wait for an investigation? Would it take some considerable time? I am thinking particularly about a chap in one of the small villages where there is only one bank. If he were anxious to get money quickly, and could not go any place else he would go to the one bank which is there?—A. What actually happens, Mr. Follwell, is that the borrower goes into the branch bank and the manager, if possible, will make him the loan and put it on his own books. The manager will do this if he feels there is sufficient credit status to justify it. If the case is one which would ordinarily have to be declined by a branch manager, he would send the application to the personal loan department and the personal loan department would make the necessary investigations and either mail to the borrower a cheque for the loan within a few days or the borrower would receive a polite note saying they could not do it. That is what happens.

Q. I was interested in the evidence which you gave before. I think Mr. Macdonnell raised the point, too, that you turned down only 7 per cent, I think, of the applicants under this system?—A. That is our record of the past years.

Q. Would that prove it would not be necessary for you to get into the chattel mortgage business; that you would not probably make many more loans?—A. I think what that indicates is that we have not advertised this personal loan service to the extent that could be done in the past few years over a longer period of time than that. We have not publicized it because the operating profit was quite narrow. We felt we had to concentrate on keeping expenses down. That is one consideration. There are others which I have mentioned in the brief. If a plan of that type were sanctioned by law under the Bank Act we would expect to give the plan more publicity and expect to get more applications. I would hope our percentage of turn-downs would not increase, but it might.

Q. Are you suggesting you are operating just below the law at the moment?—A. No, not at all. I have mentioned before we have a legal opinion in which we have full confidence, but there is no specific provision in the Act just now.

Q. One more question, Mr. McKinnon. Is this supplementary submission of the Canadian Bank of Commerce your own entirely or is it a submission with which the banking association is entirely in agreement?—A. No, it is

entirely our own thought. We happen to be the only bank operating a personal loan plan of this type and we have been giving consideration as to means by which it could be extended, not only in our own case, but in the case of other banks as well, if they should be interested. We feel an extension of this plan would not produce a lot of profit for the banks, but it would improve public relations and bring more people into the banks and provide a public service which I think would be well worth while.

The CHAIRMAN: Mr. Macnaughton?

By Mr. Macnaughton:

Q. Would you mind turning to page 3 of the brief of the Canadian Bank of Commerce, and glancing at the last paragraph on that page, where you say, "there are five separate methods of calculating effective rates all producing a different result." In the next sentence you go on to say, "Although the charge is expressed for convenience as a rate of discount", the expression is actually misleading. My question is: for whose convenience is this expressed; is it for the banks or the borrower?—A. The expression of the effective rates, you mean?

Q. Yes, expressed for the convenience of whom?—A. It is expressed for convenience as a rate of discount because customarily the cost of borrowing money is referred to as either a rate of interest or rate of discount but in the subsequent figures in this brief, I think it has been indicated that the actual cost of money as such—pure interest content—is a modest part of it. The major cost is in direct operating expenses, clerical staff, salaries, service, overhead and that part of it.

Q. You go on to say, "The expression is actually misleading". Who is misled?—A. It is only misleading in the sense to which it is referred as a rate of discount or rate involving a pure money cost. The statement there is to indicate the cost of money employed in the plan is a modest part of the entire cost. The larger part of the cost is in the cost of doing business.

Q. Is there any reason why this could not be expressed as a simple rate of interest; so much per cent per annum instead of using the terms discount rate?—A. No.

Q. I am thinking of the borrower, to give him full information?—A. In this suggestion which is produced purely for the consideration of the Committee on Banking and Commerce we suggest a rate of interest of one-half that now sanctioned for small loan companies.

Q. Of the five methods of calculating rates, which method produces the highest rate?—A. These five methods are all referred to in previous evidence produced before the committee in 1938. I do not have the information before me at the present time. We felt the practical way of doing it was to show the yield on the funds advanced by this method in the personal loan plan and they are produced later on in the brief.

Q. Can you tell us what the rate is?—A. The rate is indicated in the brief.

Mr. FLEMING: On page 1903 of the evidence it is stated as 10·46 per cent.

The WITNESS: The average yield since the inception of this plan has worked out at 10·46 per cent; that is in the evidence.

By Mr. Macnaughton:

Q. Does that include all charges?—A. That includes all charges, yes.

Q. What about the insurance charge?—A. I beg your pardon, it includes all charges except the insurance charge which is mentioned separately in the brief as being paid by the borrower. The present cost is 25 per cent per annum for each \$100 of the loan.

Q. What about the service charge?

By Mr. Hunter:

Q. What about the insurance charge? I thought it was 25 cents to 50 cents per \$100?—A. No, it has been reduced from 50 cents to 25 cents. The service charge, if you look at page 16 of the brief, is included in the effective yield of 10·46 per cent.

By Mr. Macnaughton:

Q. But the insurance charge is not?—A. No.

Q. Well, I just had a chance of seeing this supplementary submission just now, but if you are asking the committee to amend your rate of charge would it not be better to state all your costs to the borrower, the cost for insurance and the loan, as a simple rate of interest rather than a rate of discount which does not include all charges?—A. Well, the only charge not included, as already mentioned, is the insurance charge which is for a separate service. I think there is some advantage in having the rate as expressed and suggested in the supplementary amendment.

Q. As a rate of discount?—A. No, to read the words of the submission, "A rate of interest of one-half that now sanctioned for small companies may meet the requirements," as I mentioned.

Q. "The charge should be simple to express, to understand and to apply", to use your words. Supposing I am a borrower and I go into your bank. I do not perhaps understand the rates of interest and all the rest. What I want to know is what is it going to cost me. Is there any reason why the bank should not so state on the application form so I can see that at the end of the year it is going to be so much per cent?—A. I believe we do have forms which are available to the borrowers and it is the custom to tell the borrowers what the cost is as a general rule. I cannot speak from actual experience because I have not been active in the personal loan field, but I believe that to be the case.

Q. To use your words, "The charge should be simple to express, to understand and to apply." What I am trying to suggest is the idea that a borrower is entitled to know from a bank exactly what it is going to cost him. Of course he can find out if he asks, but the average person has not that kind of knowledge or experience, and it seems to me that the per cent system used by your bank does not clearly state what the cost is. Does your form state clearly 10·46 per cent and the insurance charge plus this and plus that?—A. I do not have a specimen booklet of our forms with me but it does not state the 10·46 per cent. It does, however, say what the charge is, and I believe that some of our pamphlets do indicate what the cost of the loan of a given amount would be. However, I would have to go back to the department and get our forms to verify that.

Q. You prefer to use the words "rate of discount" rather than the "rate of interest", is that it?—A. I think if the committee should be disposed to consider the incorporation of these provisions in the Bank Act to this effect, that it would be simpler to express the matter as a rate of interest of one per cent per month which is, as I say, one-half that now sanctioned for small loan companies.

Q. Would you turn to page 7 of your own brief, and at the bottom of the page you show the average amount of loans made during the entire period was \$260 and during 1953 it had jumped to \$515, for example. Do you not think that figure goes way beyond the average of the small personal loan of say \$100, \$200 or \$300 that the average person needs? On an average loan of \$515 on which you want a higher rate of interest, would you call that a small loan?—A. I believe that it is the custom of small loan companies to lend under the Small Loans Act up to \$500 and to lend in the excess of \$500 at the same interest of two per cent per month. Because of larger prices and larger ability to pay I think it is the case that the amount of the loan has increased.

Q. On page 7 also under your loan classification you show 112 loans in 1953 of over \$2,500?—A. Yes.

Q. And if I can add and subtract correctly that works out to an average loan of \$3,174. Is that not about correct?—A. I do not quite follow your calculations?

Q. In 1953 you had 112 loans of over \$2,500?—A. You are speaking of that small part of the total?

Q. Yes. The one divided by the other gives an average of \$3,174?—A. Yes.

Q. Which is a fairly healthy loan?—A. You realize that that represents less than one fifth of one per cent of the total of the loans made?

Q. Yes. But, if you bracket together on that table your loans from \$500 up to and including \$2,500 I think you will find that your total percentage there is about 65 per cent of your loans of \$500 and over. So that you are hardly in the small loan field?—A. I think the number of small loans there is 62 per cent under \$500. Now, in amount, of course, it runs it higher. In amount it does run about 66 per cent in a rough calculation.

Q. What is the highest individual personal loan your bank has made?—A. I cannot answer that question. I have not the figures. But, I think probably this classification is indicative of the highest in that the number of loans in excess of \$2,500 amounted to 112, and the amount involved \$355,000. I do not believe that there are any over \$3,500 as far as I know.

Q. If you would turn to page 5 of your brief and under "house improvement, clothing, and motor cars", you add those three percentages together I believe you get around 43 or 44 per cent of your total loans. These are hardly in the emergency class?—A. I believe it is a similar type of business to that done by the small loan companies.

Q. My point is when your average is \$515, and 44 per cent of your total loans have to do with motor cars and clothing and house improvements rather than medical bills, dental bills, hospital bills and consolidation of debts, they are hardly in the small loan field?—A. I believe we are satisfied that we are in the field in the same sense that the small loan companies are. We believe that we are doing a similar type of business for which we are endeavouring to offer facilities at one half their rates.

Q. I am not interested in whether the banks or the small loan companies do a small or large amount of business. What I am trying to find out is the question of service and if the banks can do it better fine, or if the small loan companies can do it better fine. That is all we want.

The CHAIRMAN: No. This committee is vitally interested in having the rates reduced. If you can cut them in half fine. If there is the possibility of doing it, that is what the committee should consider.

Mr. MACNAUGHTON: It is a question of service which is the important thing.

The CHAIRMAN: No, it is not. It is a question of interest rates.

By Mr. Macnaughton:

Q. At page 1071 of the minutes of the committee you make reference to the authority under which you are acting and paraphrasing your words "I believe it is legal opinion". Now, I always understood that the banks were limited to a maximum 6 per cent rate?—A. As indicated in my evidence we have a legal opinion indicating that what we are doing is a legal transaction.

Q. You are discounting.—A. On the basis on which we operate.

Q. But the other banks are not doing it?—A. They are not following this plan, no.

Q. One of your purposes in coming before us is to legalize your operations.—A. No. We are quite satisfied with the legal opinion under which we operate. But, we feel, however, that it would be desirable not only for ourselves but for the other banks to extend their operations in this field.

Q. Up to the present they have not done so?—A. You have our own experience before you. I cannot speak for the other banks. But, we have done a good volume of business with customers of other banks and those sent to us by managers of other banks.

Q. At page 1064 you were explaining your submission and you say, about the third or fourth sentence down: "There are no service charges except when a borrower desires to extend or enlarge a loan before maturity, when a service charge of \$1 is normally made to offset in part the cost of the additional work. There are not many cases of this kind." If you will look at appendix "C" table 10, page 1102 under the heading Earnings and Costs of the personal loan plan, "service charges", there is an item of \$21,096, which I presume is made up of these one dollar service charges?—A. Yes.

Q. Well, if you relate that to table 3 on page 7 of your brief you will see that the number of small loans was 56,745. In any event, I worked it out to about 37 per cent of your loans carry service charges, which I do not say is wrong, but concerning which I think your statement is not quite accurate.—A. I would like to look into that phase of it. I am not altogether sure how that is calculated. We were referring to the aggregate service charges in relation to the aggregate revenue which represents a small percentage—decimal one three per cent—of the charges to the public.

Q. I am disturbed about what seems to me to be a danger of creating two maximum rates, one under the Bank Act, with a maximum 6 per cent, and the other under your proposed amendments here. My friend to the right has mentioned the case of the local manager who might prefer to get the higher rate, and your answer was interesting, but if you care to look at page 792 of the minutes of this committee and to exhibit number 9, "chartered banks of Canada, classification of loans in Canada", under the heading Personal, section one is individuals, personal loans secured by stocks and bonds, and then section two individuals for other than business purposes, not classified elsewhere, I think you will see that the over-all picture for personal loans of all the banks is that the loan balances outstanding in 1953 were \$298.2 millions. Is that right?—A. Yes. I see that figure.

Q. Then, if you look at your brief on page 13, according to that the Bank of Commerce had loan balances outstanding in 1953 of \$18 million, referring to personal loans. That is, the Canadian Bank of Commerce had \$18 million and the other banks of Canada 280 millions, so that it seems to me that the other banks are doing a fairly good job loaning at this maximum rate of 6 per cent?—A. May I refer you to page 10 of the brief—I think that it can be clarified here—from which you will notice that the Canadian Bank of Commerce loans in this particular category amounted to 10.64 per cent of our total loans. If we deduct the amount made under the personal loan plan which works out at 3.64 per cent of our total loans we are still doing 6.84 per cent of our total in loans to individuals compared to other banks of 6.59 per cent. This indicates that our own branches are doing somewhat more than their share in the same type of loans to individuals as other banks, and in addition we have this volume indicated here in the personal loan department.

Q. What protection is there for the small borrower?—A. In what sense?

Q. He goes in and presumably has the choice of the \$500 loan at the old bank rate or is switched over to this higher rate?

The CHAIRMAN: Has not Mr. Follwell asked that at least twice. Now we have it once again.

Mr. HUNTER: I still do not understand the answer. I have heard an answer saying that the branch manager would not be interested in it because he would prefer to have his own business and would not want to send it to the head office, but I see nothing in the proposed amendments which limits that to the head office.

The WITNESS: In the proposed amendments there is a provision that personal loans as described under item 3 are administered by a separate part of the bank confined to the administration of personal loans.

Mr. HUNTER: That does not mean that it cannot come from a branch office.

The WITNESS: No. But the only circumstances by which they are referred by branch offices to the personal loans department are in cases in which the branch manager would ordinarily have to decline the loan.

By Mr. Macnaughton:

Q. Banks have many accommodation or so called personal convenience loans?—A. Yes, we have over \$20 million on the books of our own branches.

Q. Perhaps under your proposal the local branch manager might tend to switch from the lower rate to the higher rate?—A. It is for that reason that we have suggested that if this matter is to be considered by the Banking and Commerce Committee it perhaps should be considered on the basis that such loans should be defined and that they may not be secured except by chattel mortgage or endorser, this would be applicable only to loans unsecured or secured only by chattel mortgages or guarantors. It means that any one who walks into a branch bank either with recognized credit status or with any securities to offer would go in the branch books.

Q. On page 20 of your brief, the last sentence states: "Experience has shown that the personal loan plan of the Canadian Bank of Commerce can provide an effective service at lower rates and it has also shown that authority to take security in the form of chattel mortgages is a necessary condition to the providing of comprehensive personal loan facilities." What would you do with the chattel mortgages? Would you register them?—A. I should think that if we moved into this field we should follow the same practice as the small loan companies presently do.

Q. You would follow the same practice?—A. Yes. Now, that statement was made partly on the basis indicated on page 12 of the brief that in the small loan companies business they made \$102 million of loans during the year 1952 against chattel mortgages while in our own plan we did none. If you will reflect on the statement "Security in the form of chattel mortgages is a condition necessary to the providing of comprehensive loan facilities", it means something more than what we are doing now.

Q. What would you do in Quebec?—A. That would remain to be studied. I think we would endeavour to assess what the practice is in connection with the companies already in the field.

Q. I hope that you would obtain legal opinion?—A. I can assure you we would.

Q. My point there, seriously, is that for some time now the banks have been arguing that they must keep their assets liquid because it is depositors money which is callable and I understand that the banks have not had chattel mortgages, but under the National Housing Act they were disturbed by the provisions that were brought in allowing them certain chattel mortgage provisions and now you have come forward and proposed chattel mortgages in the personal small loan field. It seems to me that under the small loan setup they have their own capital which is risk capital, and if they want to lose it, it is their business. But, under the bank you have the depositor's money and there might be a different interpretation?—A. Might I answer this question by saying that we have been in business 18 years and our losses have been one

tenth of one per cent. If there are no facilities for enlarging this type of business it cannot be done, but if it should be established in the Bank Act to provide a basis for evolutionary moving further into the field, I think we can depend on our own judgment and experience to protect us from running into undue losses. It is an entirely normal banking practice which has been followed in the United States with very great success.

Q. It is hardly normal when it leads to such a drastic change. In any event, what have you to say about a bank keeping its assets as liquid as possible. If you go into the chattel mortgage field and then go into a depressed era your assets certainly will not be liquid.—A. Are you suggesting that a loan payable on monthly instalments over a period of 18 months is not a liquid asset?

Q. I do not know but I do suggest over the last few years we have been in a hot period and things have been much easier. But if we were on the way down it would be different. What about the responsibility of the banks to depositors if its assets are not liquid?—A. I think it can be taken for granted the banks will exercise all due prudence to keep its assets liquid but I do not think a personal loan is not a liquid asset merely because it is a personal loan.

Q. In your supplementary statement you mentioned an "adequate measure of advertising". In other words, it is your intention to spend more money on advertising to get more business and turnover. Would that not increase the rate to the borrower too?—A. Well, no. We have suggested three things for the consideration of the Committee on Banking and Commerce which are merely advanced for consideration. The first of these on page one imposes a limit which could not be exceeded, but the expansion of this type of business does presuppose an increase in the cost of operation.

That is all, thank you.

The CHAIRMAN: Mr. Fleming?

By Mr. Fleming:

Q. Mr. McKinnon, to begin with, I shall make a couple of references to the evidence which you gave to the committee on April 8, part of which has already been referred to. On page 1071 in your final answer on that page, referring to the reasons why you initiated this plan you say: "we did it on the basis of legal opinions as to the charges to the public of 6 per cent discount on the amount, together with the arrangement for our required monthly payments into the savings account. No one has ever contested those legal opinions",—I presume that includes the office of the Inspector General of Canada?—A. I do not know of anyone who has contested the legal opinions.

Q. I want to relate that to the statement contained on page 1093 of your evidence where you reached this conclusion at the end of the second paragraph: "This statement shows the average yield on loans since the inception of the plan to be 10·46 per cent." Would you please outline in detail how the interest rate moves from the 6 per cent to the 10·46 per cent?—A. I think it is demonstrated in the exhibit here at the foot of page 1092—there is an example given there.

Q. Well, I was hoping that you would break it down. First of all, as I understand it, you apply the interest or discount charge at the time the loan is made?—A. Yes.

Q. And how do you calculate it by the month in making that initial discount?—A. Well, if the loan is for a period of one year, the example would give a good illustration; there is a discount charge calculated at 6 per cent and the net proceeds are paid to the borrower as shown on page 1092. He deposits his monthly instalments to a saving account, interest is credited, and at the end of the year the amount in the savings account is sufficient to repay the loan.

Q. Do you pay to the borrower the normal interest on the amount of his monthly payment?—A. Yes, that is correct.

Q. Does he receive the same treatment in that respect as any depositor who is not a borrower?—A. Yes.

Q. What other charges enter into this, because it is not too clear at first blush how the effective average rate of yield moves to 10·46 per cent?—A. I do not quite follow you. You say it is not quite clear how it becomes 10·46 per cent?

Q. How does it work out? I understand you are saying, Mr. McKinnon that you apply your discount to begin with. The Act requires that to be a discount not exceeding 6 per cent per annum. However, as I understand it, you apply this on the basis of a monthly calculation, do you not?—A. The discount is calculated on the entire amount of the loan and it is deducted from the amount of the loan when the net proceeds are paid to the borrower. The borrower deposits in a savings account an equal monthly amount. Now, if you offset one against the other you arrive at the so-called effective rate of interest.

Q. I think I understand it now, Mr. McKinnon: when the borrower deposits on that loan \$240 his \$20 per month repayment, he is not credited with that sum against the loan at the time of the monthly payment, but only at the end of the year when he has completed payment?—A. That is correct.

Q. And in the meantime he is only given the rate of interest paid by the bank to any depositor?—A. Yes.

Q. Now, I presume that if that practice is legal with respect to the field of small loans, it is equally legal with respect to any loan the bank could make, is that right?—A. I am not a lawyer. I am afraid I cannot express an opinion on it. We had a legal opinion on this particular plan.

The CHAIRMAN: I think it is fair to assume that it is legal.

Mr. MACNAUGHTON: No, it is a legal opinion he said. It would be legal only if you had a judgment or an Act of law.

The CHAIRMAN: Let us not quarrel about that legal opinion. How long have you been in this business?

The WITNESS: Eighteen years.

The CHAIRMAN: They have been in the small loans business for 18 years, and the legality has never been questioned.

Mr. MACNAUGHTON: Who is going to sue the bank anyway?

The CHAIRMAN: There are people who tire of repaying loans and who would rather sue the bank or have the bank sue them if they thought they could avoid repayment. After a period of 18 years it has become an established practice and if the practice was illegal I would think the Department of Justice would have brought it to their attention. For all intents and purposes I think we ought to consider their present method of doing business is within the law.

Mr. MACNAUGHTON: Another legal opinion.

By Mr. Fleming:

Q. I am not disputing your legal opinions. I know you accept the opinion, and I am not entering into any dispute as to the validity of the opinions you received, but what I am interested in is the extent to which this method can be applied in fields other than the fields of small loans. If it is legal for any bank by a method like this to arrive at an effective average rate of yield of 10·46 per cent with respect to small loans, it must inevitably be equally legal for them to do it with respect to any loan?—A. That depends on the legal interpretation, does it not, and I would not care to express an opinion on it. I can say this, however, that in actual practice of doing business the rate of

6 per cent is applied, but it is expressed as a rate of interest or discount. What extends the picture here is that the loans instead of running from three to six months are worked off by means of monthly deposits into a savings deposit account for this general purpose of paying the loan at the expiration of that time.

Q. I think I understand the method by which you arrive at the rate you have indicated is the average rate of yield in your evidence on page 1093, but I am interested also in how and where this leaves us with respect to the effect of section 91 of the Bank Act which provides:

(1) Except as hereinafter in the section provided, no bank shall in any part of Canada, except the Yukon territory or the Northwest Territories, stipulate for, charge, take, reserve or exact any rate of interest or any rate of discount exceeding six per cent per annum and no higher rate of interest or discount is recoverable by the bank.

Now, you have legal opinions from, I have no doubt, a competent source, that the practice you are following here, by which you arrive at an effective average yield of 10.46 per cent of loans of this type, is quite within the terms of section 91 of the Bank Act. Is there anything at all you can point to which would confine the effect of that conclusion to the small loans? I cannot; and it seems to me that if the practice is perfectly legal with respect to small loans it must be equally legal to apply it to any loan whatever that a bank is entitled to make?—A. I can answer your question this way: that the legal advice by which we operate was directed and related specifically to this particular instance of personal loans.

Q. But you do not feel disposed to make any comment on the question now raised beyond that?—A. Except as I have said, this is a specialized field in which charges of the type I have mentioned are made.

Q. I understand the reasons you have given for carrying on the business in the way you do, but I was interested rather in isolating this opinion and the extent of it. Now, may I refer again to the statement on page 1093 of the evidence of this committee where you say: "This statement shows the average yield on loans since the inception of the plan to be 10.46 per cent." I stress the word "average". Can you tell us what has been the maximum yield on any loan in this field, please?—A. I can answer it this way, that variations one side or the other are very small.

Q. Would it be within one per cent?—A. Yes.

Q. So the maximum would probably be somewhere around 11 per cent?—A. I think less than that.

Q. Now, coming to the supplemental submissions which you presented this afternoon and in which you indicate the proposed amendment to section 75, I understand that while in your opening paragraph, Mr. McKinnon, you said: "A rate of interest of one-half that now sanctioned for small loan companies may meet these requirements," you have not drafted the amendment that would be required to permit the application of that proposed rate of interest?—A. No, we have not.

Q. The amendment you have drafted is confined to the amendment to section 75 to enable the bank to lend money and to make advances on certain forms of chattel security, and then you propose a definition of personal loans?—A. Yes.

Q. Now, to apply the proposal you make with respect to interest would mean imposing a maximum permissible statutory interest rate of 12 per cent?—A. A maximum permissible amount, yes, which is based, as I mentioned earlier, on the feeling that an extension in this particular field would involve higher operating costs. We do not anticipate there would be any large amount of profit because to operate the business we would have to incur additional costs.

Q. You have not drafted an amendment so I am not altogether clear about the way in which this rate would be set up. Do you propose that the rate be stipulated in the Act at 12 per cent per annum or at one per cent per month?—A. My own view is that it would be much simpler to express it at the rate of one per cent per month. This is comparable to the small loan operation of 2 per cent per month.

Q. Yes, if my memory is correct the rate stipulated for small loan companies is 2 per cent per month and not in terms of 24 per cent per year?—A. Yes.

Q. You will perhaps tell me this is an extreme case, but I am concerned with what would become permissible under the terms of such legislation. You would tell me you would not do this, but am I right in assuming that with the rates stipulated in the Act of 6 per cent it is possible by this method of monthly payments to arrive at a net average yield of 10·46 per cent and if you started with a rate of 12 per cent it would be equally possible—and as a legislator I have to take account of the possibilities, you can appreciate that—it would be equally possible to arrive at an average rate of 20·92 per cent as an average?—A. I must say, Mr. Fleming, it never crossed my mind.

Q. We sitting here have to dig out the possibilities of these things when we are dealing with what may or may not be a proposal to permit by law a rate of one per cent per month. You will appreciate that we must explore the possibilities of that. Am I right in my conclusion that if the stipulated rates were named either at one per cent per month or 12 per cent per annum the results could be of that type of business an effective average rate of 20·92 per cent or, in the light of your statement about the maximum, it could mean a rate of shall we say 21½ per cent? It could mean that?—A. No, I cannot agree with you. I think the drafting of the terms of the amendment would take care of that. It would be expressed quite clearly at one per cent per month.

Q. I have to question this because you have not given us the amendment which I understand is an effective part of your proposal?—A. I should think, Mr. Fleming, if the committee wish to adopt such a plan that the Department of Justice would draft it very carefully to guard against the possibilities you had in mind.

Q. However, they will have to have regard for the experience of its working in this field. I am wondering what practical safeguards you could propose to prevent the proposed rate of 12 per cent working its way up to a rate say of 21 per cent?—A. I think that will have to be left to the drafting of the revision of the Act.

By Mr. Hellyer:

Q. Could Mr. Elderkin tell us if under the Small Loans Act that interest is applicable on the declining monthly balance?

Mr. ELDERKIN: In my understanding it is. However, I would not care to state it definitely.

Mr. TUCKER: It is made clear that you cannot take an effective rate higher than the amount of the balance outstanding. It is carefully stated in the Small Loans Act.

By Mr. Fleming:

Q. To follow up Mr. McKinnon's proposed amendment, in the definition of personal loans, subsection 1 "made to one or more individuals," I take these small loans are never made to corporations? When it mentions "personal loans" it means they are loans to a person?—A. Yes.

Q. And where you speak of one of more individuals that might apply to a partnership?

The WITNESS: A man and his wife or two brothers, for instance.

By Mr. Fleming:

Q. For how long a period do you propose these loans should run? I take it in your present small loans business the small loans are running for a year at a time, is that the general practice?—A. Some times longer; some times 18 months and in a limited number of cases for 24 months.

Q. That is the maximum?—A. Yes. I think the bulk is 12 months.

Q. You do not stipulate in the amendments any particular period, but I take it the proposal is that it be left open?—A. The proposal is that it be left open to the judgment of the individual bank. I think it could be taken for granted that no bank is going to give longer terms than it feels would be warranted and the tendency is to get terms as short as feasible.

The CHAIRMAN: Mr. Hunter?

By Mr. Hunter:

Q. I have a few questions here. Concerning the question of one per cent per month, Mr. McKinnon, I noticed in the cost shown for your loans you seem to have allowed rather modest expenses. Your advertising costs, for instance, appear to be very low compared to the personal loan companies. Am I correct in that?—A. Yes, that is true.

Q. I am interested in knowing whether your profits are true profits in the strictest accounting sense or whether you have contributed certain things to your personal loan branch such as space and advertising and things of that nature?—A. Well, that was covered to some extent in the evidence given prior to the Easter recess.

Q. I have read that evidence, Mr. McKinnon, but I did not get the answer too clearly.—A. The cost accounting with respect to the department as such is comprehensive but not so in respect to the expenses incurred by branches. You will observe there is quite a substantial amount under that heading. The cost accounting is not comprehensive of all the costs in the branches. Perhaps I could refer you to page 14 of the brief where I mentioned that, if you have it. Perhaps I could find it in the evidence. Yes, page 1101:

The earnings and costs represent the aggregate of the personal loan departments except that "other expenses" includes salaries and other costs incurred at branches. To verify the accuracy of the cost accounting used in arriving at the expense incurred at branches the methods used were examined and tested by chartered accountants who reported:

We are of the opinion that the charges shown for "expenses—branches" in the statements of results for the personal loan plan of the Canadian Bank of Commerce represent a fair and reasonable share of the operating expenses of the branches applicable to the personal loan business.

You notice that was operating expenses. It would be an impossible task to cost account every item of overhead to be allocated to this type of business.

Q. You are allocating rent?—A. Some part, yes. I would not like to attempt to explain the method used by the cost accounting because that was done by our cost accountant department of the bank and I do not have their formula before me, but when I say "yes" concerning the allocation of rent, I think that is perhaps subject to some considerable allocation. Our direct operating costs do not include by any means the full share of overhead costs which normally would be applied.

Q. That is the point I am trying to make. At present you are averaging about 10.46 per cent and under the suggested amendment which is not yet drafted it would be one per cent per month which would be a maximum of 12 per cent, I presume. Actually, it might be a little less, but the difference is about $1\frac{1}{2}$ per cent and when you start to cost account your expenses on this such as rent, advertising and so on, it strikes me that your rate of interest is not a profitable rate of interest. I would like to hear your comments on that?—A. We expect that the operation would produce a profit on the rates contemplated. We do not expect it to be a very profitable operation by any means, but we would expect it to carry its own. In other words, we would not lose any money on it. In previous evidence I mentioned certain periods when we did have losses which were compensated for by subsequent profits arising out of a higher average loan rather than any reduction in expenses.

Q. I am just trying to get clear in my own mind the amount of profit you would make, and that is going to be so slight that it is practically a service which you are offering the public, is that right?—A. We, of course, expect to make a profit, and we hope as we develop up to a higher volume basis we might be able to reduce the costs but I think the greatest benefit is in the service to the public, and the fact it enhances public relations for the bank, and the attraction perhaps of additional people to the bank who might become permanent customers in other departments.

Q. Is it not becoming, in a sense, a form of advertising to get customers into the other departments of your bank?—A. No, I would not go quite so far although I suppose any form of service to the public offered by a bank could be called a means of advertising to get people into other departments, but as I mentioned before we expect this business to show a profit.

Q. But a very slight one, I judge?—A. Our expenses from the inception of the plan are perhaps indicative of what has happened up to this point. We show an average profit for 18 years of \$54,000 approximately, subject to the discussion we had about the allocation of expenses.

Q. What I am interested in, Mr. Chairman, is the fact that by doing this—and in effect almost subsidizing this business from the other part of the banking business—it may be a direct help to certain members of the public but it may be a detriment to other members of the public who will not qualify under this, and will still have to go to the small loan companies and obviously this would take the cream of the business and the ordinary loan companies will therefore be operating at a higher expense, not getting the cream of the business, and those who do not qualify and have to go to the ordinary loan companies will have to pay more. It is just a suggestion I am making. I would like to hear your views on it.—A. I must say, first of all, there is no element of subsidy in this business and we do not want any element of subsidy in it.

Q. In any business where you make only a small profit there is a form of subsidy, is there not, because you are in business to make a profit?—A. I would agree with you if it involved a loss.

Q. You are suggesting a \$3,500 limit?—A. I would like to say, as I mentioned earlier, that that limit is for the purpose of consideration based on the possibility that there may be requirement for loans up to that level of some consequence over the next 10 years. The amount of business we have done between \$2,500 and \$3,500 during the past year has been quite small in relation to the total, but that is the limit that might be given some consideration perhaps.

Q. I was quite interested in your definition of a personal loan as outlined in your supplementary submission particularly to part 5 where you say:

"Unsecured or secured only by chattel mortgage or the obligation of endorsers or guarantors". This has been brought up several times. How do you decide whether a person gets the low rate or the high rate? Each time you have referred them to this definition. I would like to know in turn whether we have another legal opinion on the term "unsecured" or whether you are going to define it accurately? Suppose a person comes in with a \$100 Dominion of Canada bond and wants \$92—is that an unsecured loan?—A. Perhaps I might repeat that the personal loan department is not allowed to make any loans if there is any security of that nature offered. I would be surprised if any bank manager did not make the loan.

Q. I do not want to labour the point, but if a man comes in with no security at all it would be under the normal rates?—A. I do not believe it is possible to discuss here all the various types of proposals that might come into the branch managers. Our branch managers are anxious to make loans if they feel they can. Many of the loans they make are only partially secured, and not fully secured.

Q. This is a suggestion for consideration and not a final suggestion?—A. It is a suggestion for consideration based upon the problem of arriving at a delineation between the personal loan which is subject to a higher charge than the ordinary branch loan.

Q. Earlier, Mr. McKinnon, you stated this was a proposal which was put forward by your own bank. Have you discussed this with the banking association?

The CHAIRMAN: Mr. Atkinson will be the next witness, you can examine him on it.

Mr. HUNTER: I propose to do both, but just as you like.

The CHAIRMAN: Leave it for Mr. Atkinson who will speak for the bankers' association.

Mr. FRASER (*Peterborough*): That is the question I asked this morning.

The CHAIRMAN: We will leave that for Mr. Atkinson. Mr. Cameron?

By Mr. Cameron (Nanaimo):

Q. You report, Mr. McKinnon, that you make nearly 40 per cent of these loans now without any guarantor and without any security?—A. Yes.

Q. Could you tell us how you arrive at the conclusion that these particular borrowers fall into that category?—A. Well, there are many different reasons based on the standing of the individual, our experience with him, what we know about him, the credit status he has established in the eyes of the personal loan department, etcetera.

Q. Do I understand from that, that by and large the 40 per cent of the borrowers, or rather the borrowers of 40 per cent of your loans, are those who had the loans made to them by your branch managers?—A. No, these are loans of the personal loan department.

Q. They all still go to your personal loan department?—A. Yes, but the branch managers have made unsecured loans to people they know well, but the others are people who are not known, whose credit status has not been established and they go to the personal loan department.

Q. And I notice you have them established in six cities across Canada?—A. Yes.

Q. You have one in Vancouver. I live on Vancouver Island. The people in Vancouver know nothing about me and do not know me from a bale of hay. How do I establish my right to a loan without a guarantor to the department? I would like to know—it must be on the say-so of your local branch manager?—A. The local manager may offer what comments he can but the investigation is made by the personal loan department as to the position the borrower

occupies, his length of employment, record of paying debts and a great many other things. There is a section of the personal loan department at Vancouver set up for that particular purpose.

Q. Well, having established the fact that this borrower is suitable material for a loan without a guarantor, on what basis do you distinguish him from the person who might come in there and ask for a loan not from your personal loan department, but at the regular rate of $5\frac{1}{2}$ or 6 per cent? Why should he have to pay the 10·46 per cent when you have already established he is a credit worthy borrower. Why should he be more dangerous to you at the 6 per cent rate than at the 10·46 per cent rate?—A. I am quite sure a great many bank managers prefer to loan on their own books because it offers them more profit but there are many wage earners who require a disciplined way of repayment and if they do not make their deposits they receive notices from the personal loan department. This involves substantial cost.—It is not feasible to put that type of thing into our branch banks. They are occupied with other activities. It is a specialized business, and it is more economical to have that follow-up done by a centralized department which has facilities for doing so.

Q. Well, this borrower has been told he is safe to lend to without a guarantor, but you are going to make the loan through the personal loan department. I would assume that one of the characteristics on which you base your decision that you do not require a guarantor would be that he is the type of person who would come in and make his monthly payment without being prodded?—A. It would depend on the judgment of the lending officer in the personal loan department who is not always right, of course.

Q. What particular extra cost does he create for you, this man who is apparently good enough to lend to without a guarantor? Why should he be so expensive when I presume he is the type who is going to come in and pay his 20 bucks a month without being prodded and probably make a regular deposit out of some of his pay cheque as well?—A. In order to establish he is responsible for a loan without a guarantor it is necessary to go through a whole process of investigation to find out who he is, where he works, how long he has been there and many other things. That can be done in a central department which had developed facilities for it and in fact developed credit files over a period of time, but it cannot be done by the individual branch manager and many of these loans can be put on the personal loan basis where there is a definite follow-up. We have found if you put them in a branch bank they have difficulty in enforcing disciplined repayment, that the loan may fall into arrears and involve a higher collection costs. The branch has not the facilities to do it. Does that answer the question?

Q. It does not quite answer it, Mr. McKinnon, because it seems to me—
(Mr. Macdonnell assumed the chair).

Hon. MEMBERS: Hear, hear.

The ACTING CHAIRMAN: I presume this is a coalition?

By Mr. Cameron (Nanaimo):

Q. I still cannot see it, Mr. McKinnon. These borrowers—from your statement those whom you decide can borrow money without a guarantor must be in a preferred class—A. Well, we do not put them in a preferred class, of course, and over 50 per cent of the number of loans made were made to people who have no bank account with us.

(Mr. Croll resumes the chair).

Mr. MACDONNELL: I did not have a chance to say one word!

Mr. FRASER (*Peterborough*): Kicked out of office!

Mr. HENDERSON: Mr. McKinnon, how did you arrive at the \$3,500?

The WITNESS: We had seen advertisements quite extensively throughout the United States advertising personal loans up to \$3,500. We had a small amount of business over \$500. We thought the committee would like to consider some limit and this was a suggested limit for your consideration.

By Mr. Henderson:

Q. I was just wondering if that had anything to do with the automobile trade? On this chattel mortgage you are suggesting here, would that be a blanket chattel mortgage the same as the small loan companies take or would that be on a particular item?—A. We are not making any concrete proposals as to the nature of the chattel mortgage. There was some discussion about that a little while ago. It may vary in form depending on what it covers and depending on the individual circumstances. It would not be used, I would think, very extensively. We have to gain some experience before we enlarge our operations to any great extent. These things do not come about, in corporations and business generally, over night, but on the other hand, they do not come about at all if there is no facility for them.

Q. Leaving the increase in interest rate out of this, if you were able to take chattel mortgages as security for loans, in your opinion do you think that more people would be able to borrow from the banks?—A. I believe that over a period of time there would be a growth in the business. I do feel, however, that that type of business does involve some additional costs. We have to keep this business on a profitable basis. We cannot afford to have it lose money. If we find from our experience that the cost exceeded revenue we would, of course, have to alter our basis.

Q. In other words, you feel there are some people on the margin who cannot borrow from banks who could borrow if the banks could take a chattel mortgage?—A. I would believe there would be a gradual expansion of operations in that field.

Mr. FLEMING: I have been reflecting on the answers you gave me a few minutes ago, and I am troubled about one or two things. May I come back to them?

The CHAIRMAN: Yes.

By Mr. Fleming:

Q. I understood when you spoke about the increase in the interest rate you were contemplating an increase by way of amendment to the maximum interest rate as defined in the Act. I now understand in proposing an increase to one per cent a month you are proposing to put that precisely on the basis on which it is put in the legislation governing small loans so that 12 per cent would become your effective charge on all accounts to the purchaser?—A. Yes.

Q. I am glad you clarified that because I would not wish my question to have done you an injustice on that point. Do I understand that the effective increase which would result from your proposal with respect to the rate, or the change in the Act, is that the rate would be one that would permit an increase in the rate you are now charging? Let us say your maximum runs slightly over 10½ per cent; it would permit an increase in that rate to a maximum of 12 per cent calculated in the same way that the 10½ per cent is calculated now?—A. Yes, that would be the same.

Q. So you are proposing an increase in the effective charge to the borrower, of 1½ per cent per annum?—A. That is right.

Q. I have two questions arising out of that. Would it be very effective in extending your business in this field, that increase of only 1½ per cent?—A. We would have to try it to find out. We believe we could extend our operations in this field over a period of time. I am not suggesting it is going

to happen very quickly because we would have to get experience as we broadened out. But we think that with a high volume we can achieve a lower unit cost. This would demand a great degree of efficiency with which the business is operated.

Q. And on your deposit account, you are going to be crediting the borrower with an additional $\frac{1}{2}$ to 1 per cent; that is, I take it, about one-half of your suggested increase; so there is only going to be an increase which will benefit you to the extent of 1 per cent?—A. If this suggestion should be adopted by parliament, we would be able to operate on a straight loan basis; we could simplify our methods of operation.

Q. You would abandon the present method of these monthly payments, simply credited to the depositor at deposit rates?—A. That is right.

Q. What is the net advantage to you then, if you retain that? What do you expect to be your net advantage? It won't be as much as $1\frac{1}{2}$ per cent per annum?—A. Oh, no. We do not expect it to be anything like $1\frac{1}{2}$ per cent because we expect our cost of developing the plan will use up a considerable part of it. But we do expect the operation to show an additional $1\frac{1}{2}$ per cent revenue which we might derive under this plan, but it would certainly be very largely expended or used for operating costs.

Q. If you do not obtain this amendment, do you propose to continue in the field in which you are now operating?

The CHAIRMAN: Is that a fair question to ask him? He is here asking for an amendment. He does not say, "If you do not give us the amendment, then we will do this or do that."

Mr. FLEMING: If the committee or if parliament does not give effect to his request for an amendment, is it the intention of the Bank of Commerce to continue in this field? What are the alternatives? In other words, is the bank going to abandon this field or continue on the present basis?

The CHAIRMAN: I would not like his answer to be interpreted by some members of the committee as a threat to the committee.

Mr. FLEMING: Oh no, no.

The CHAIRMAN: It may well be, assuming that he should say, "If we do not get the amendment, we are going out of business."

Mr. HUNTER: That is good information to know, is it not?

The CHAIRMAN: It would be a tragedy if they left that field. It may happen or it may not happen; I do not know.

Mr. FLEMING: We legislators always ask ourselves, what is the alternative?

The CHAIRMAN: He is prepared to answer you, go ahead.

The WITNESS: I would answer you in this way: that we won't go out of business unless we are forced out.

By Mr. Fleming:

Q. If you cease to find a profit in it?—A. Yes.

Q. And barring that you would continue under the present operations?—A. Yes.

Q. Then, if the committee does not see fit to recommend an increase in the rate of interest, I take it you will still ask for an amendment to section 75 that would perhaps permit you to lend money on the security of chattel mortgages?—A. Yes, I think that would be desirable not only with respect to personal loans but with respect to proceeding under the Bank Act.

Q. That amendment stands on its own feet?—A. Yes.

The CHAIRMAN: Now, Mr. Macnaughton?

By Mr. Macnaughton:

Q. You propose an increase of $1\frac{1}{2}$ per cent for the reasons which you have outlined. Is that to be a maximum per month?—A. That would be the maximum.

Q. It would be all-inclusive of all additional charges?—A. Yes.

Q. Under the Small Loans Act they are limited to a 2 per cent maximum per month on unpaid balances, which is about 24 per cent?—A. So I believe. I believe they all operate or make loans in excess of \$500. I do not speak with final authority, but I do not believe they are limited in collecting interest in any respect to loans over \$500 except to the extent that the laws against usury might prevail.

Q. The maximum term under the Act is fifteen months?—A. That would apply only to loans which are governed by the Act and not to loans which are not governed by the Act.

Q. You propose a 1 per cent increase up to \$3,500?—A. That is a view advanced for consideration.

Q. Would there be any term?—A. If thought desirable the term might very well be incorporated into the Act. We ourselves do not think it would be necessary to have such a provision inasmuch as the need to exercise the proper credit supervision exists in itself.

Q. Would you think that this \$25 to \$75 loan would be unprofitable in fact, because they require so much service?—A. We have already established that loans of this size are not profitable to us, yes.

Q. If you stepped up your limit on which you would loan on a personal basis, then who will look after the really small borrower who needs, let us say, \$25 to \$50, which is very costly?—A. We do a personal loan business. We do not exclude borrowers as to any particular category or amount. I think there may be some amounts of \$120 or of that nature. I am not too sure, but it would not affect our basic operations at all.

Q. And the minimum would be \$125?—A. I am speaking from recollection; there may be in our operations a minimum figure of \$60 or \$120, as to the amount of the loan that we made. But I am not too sure of that.

Q. You do not bother with anything below \$125?—A. I would not like to say that we do not bother with it, but I could not speak definitely on that subject.

Q. Would you bother with it if you got this minimum?—A. We would give full consideration to any business coming in. But I cannot speak on that particular subject because I am not familiar with the circumstances within the department.

The CHAIRMAN: Now, Mr. Macdonnell?

By Mr. Macdonnell:

Q. You explained to us the special nature of those loans as distinguished from ordinary loans. Is there a special contract that the borrower enters into calling to his attention the terms of the loan, or does he just sign a note and receive the advice that his payments will be paid into a savings account?—A. He does sign a contract with the bank in connection with the loan.

Q. I beg your pardon?—A. I said that he does sign a contract with the bank in connection with the loan.

Q. That would indicate clearly to him the terms of the loan?—A. Oh, yes.

Q. And with your quite wide experience in that now, have you had any trouble with borrowers, or any unusual complaints any more than with other borrowers?—A. With other borrowers?

Q. I mean that all borrowers are apt to complain if they cannot pay their loans; but I have this in mind: have you had any special expression of discontent arising out of this aspect of your business?—A. None whatever. I think that the opposite is the case.

The CHAIRMAN: You mean they are all happy?

The WITNESS: I cannot speak about their happiness, but I think that the fact that they have been increasing would indicate it.

The CHAIRMAN: Mr. Stewart.

Mr. STEWART (*Winnipeg North*): I am the only member of this committee who can speak with some authority of bank loans, apparently.

The CHAIRMAN: The rest of us are keeping it a guarded secret. Go ahead.

By Mr. Stewart (Winnipeg North):

Q. I want to present the case from the banks' point of view so I can clarify it in my own mind. How are you going to distinguish between the two types of borrowers? First I go to a bank and want to borrow \$200 for a year at, let us say, 6 per cent. I tell them that I can repay it at the end of the year. That means a clear profit of \$12 for the bank with no overhead. But if I go to the personal loan part of the bank, the bank will only make about \$4.18 for the year. Therefore on that basis it would mean greater profit to the bank to deal with me through the bank manager rather than through the personal loan branch.—A. The profit is greater when the loan is made through the bank manager.

Q. Very much more profitable?—A. Yes, but the branch has costs too.

Q. That is my point.

The CHAIRMAN: Now, Mr. Tucker.

By Mr. Tucker:

Q. Mr. McKinnon, the payments which are made through the person borrowing money under this scheme, once they are made they are not withdrawable?—A. I believe they are hypothecated as security for the loan. That is the basis of them.

Q. In fact so far as the borrower is concerned he is paying for the loan, for under such a system actually, so far as you are concerned, once he has paid out the money he cannot get it back.—A. He deposits the money in the savings account which is hypothecated to the bank.

Q. One of the things on the record which excites my curiosity is that according to section 91 of the Bank Act, there should be no rate of discount exceeding 6 per cent per annum recoverable by the bank; and section 155 deals with the very serious offence of a breach thereof as follows:

Every bank that violates the provisions of subsection (1) section 91 is guilty of an offence and liable for every such offence to a fine not exceeding five hundred dollars and every one who, being a manager or officer of any bank, violates the provisions of the said subsection is guilty of an offence and liable for every such offence to a fine not exceeding one hundred dollars.

And then subsection (3) of section 91 provides as follows:

The bank shall make an annual return to the Minister, as of the last juridical day of the month of December in each year, giving such particulars as may be prescribed by regulations made by the Treasury Board of the interest and discount rates charged by the bank.

Now, what I am curious about is this: is your bank actually, in its return, disclosing that it is getting an effective rate of interest on the money loaned out of over 10 per cent? Has that been put in the return?—A. This procedure is done under legal advice, according to which we are advised that it is within

the terms of the Bank Act to make the charges we are making. These loans would be classified, speaking from my general knowledge, in the 6 per cent category because savings deposits are classified as savings deposits on which we pay interest.

Q. Well, you do not indicate they are in your return, and that in respect to some of your business you are getting an effective return on your money of over 10 per cent. You have not said that in your return.—A. We have followed the procedure I have just outlined. That matter has been before a committee of the House in 1938, I believe, and again in 1944, and in 1949, and now; and this matter has been discussed on each occasion.

Q. As I see it, if what you are doing is legal, then there is nothing to prevent all loans being handled in this way; in other words, in effect the provisions of section 91 could be completely ignored if this procedure of yours is legal; I mean if what you are doing is legal, then section 91 is wholly ineffective.

Mr. HUNTER: No, he said it was legal under section 91.

Mr. TUCKER: In restricting the rate of interest to 6 per cent per annum.

Q. Can you suggest any way in which you can handle this, unless you intend to handle loans of any amount?—A. There is a specific procedure designed for this particular type of business which does not apply to any other type of business.

Q. If you can do this in regard to these loans here, then there is nothing to prevent another bank doing the same thing in respect to loans of \$5,000 or \$10,000, is there, that you know of?—A. I am quite sure that no bank would consider doing it.

Q. What I am concerned about is this: I want to try to find out the effect of section 91 and whether it has been enforced at all. If committee after committee on banking and commerce has passed on this procedure and approve it. Then have we any right to complain later on if banks begin to raise their rates to 7, 8 or 9 per cent? We are all familiar with the maxim that hard cases make bad law and as we are very concerned about those people having credit at low rates of interest; and if in our desire to meet that need, in effect we permit that section 91 to be completely—shall we say—

The CHAIRMAN: Circumvented is the word you want.

By Mr. Tucker:

Q. Yes, circumvented, it is something for this committee to consider seriously. Now, another thing I would like to ask you is this: I understand that your bank has subsidiary companies. I see according to the balance sheet that you have shares in two controlled companies in the sum of \$10,608,000. One of those companies is the Dominion Realty Company, and another is the Canadian Bank of Commerce Trust company in New York. I presume those subsidiary companies were set up to do business that would not be legal under the Bank Act.—A. No, not at all; nothing like that at all. The Dominion Realty Company is a company which holds real estate in which the bank does its operations; while the trust company was incorporated to provide essential facilities in New York.

Q. But it would not be subject to the provisions of the Bank Act?—A. In the first instance the Dominion Realty Company does not do any banking business; it is purely a realty company; and in the second place the trust company was incorporated in New York under their laws and it again does not do any banking business.

Q. Surely there are deposits payable on demand, and what about the bonds that they own?—A. I say that it is not set up to do a regular banking business. It is set up entirely to do a trust company business and it is under the supervision of the state authorities of the state of New York.

Q. So that it would not be, as I understand it, by setting up a trust company, and using an organization with legal entity under your control, that is not subject to the bank act.—A. I am not just sure what the legal view would be on a matter of that kind, but we have always taken the view that we have our own subsidiaries and that they should operate within the terms or the policies as laid down by the bank act.

Q. Well, this is a trust company and it does a trust company business and I suggest it could loan money on real estate.—A. No. You will notice from its assets that its principal holdings are bonds of the United States of America and it is not designed to lend money on real estate.

Q. It is a trust company, of course?—A. That is so.

Q. I am speaking of what you can legally do. Under our law a trust company can loan money on real estate while banks cannot. Is there anything in the charter of the Canadian Bank of Commerce Trust Company to prevent you from loaning money on real estate?—A. I cannot speak on the precise wording of the charter of this trust company. It is incorporated under the laws of New York State; but I can say that its operations would not encompass loaning money on real estate.

Q. Your suggestion runs opposite to our whole idea of the Bank Act of putting a maximum amount on the rate of interest charged by a bank doing a banking business. But under your set-up your subsidiaries could do business which you could not do under the Bank Act. Therefore would you not consider the setting up of a subsidiary company to do this small loan business and thereby come under the "Small Loans Act"?—A. Well, I would think there was considerable difference between having a subsidiary company incorporated under the laws of a foreign country to facilitate certain services there as compared with creating a subsidiary company in Canada under which, as you suggest, the child may do things which the parent is not authorized to do under the bank act today. I do not think that we would care to conduct that plan.

Q. You would be operating legally as you would show that you controlled this company and so were engaged in the "small loan" business and subject to the ordinary laws in regard to small loans, and therefore you would not be asking us to change the whole Bank Act for you to do this very kind of business; and you could carry on just as well through a subsidiary company as you could through a department of your bank, and in carrying it on as a subsidiary company you would be subject to the same laws which the small loan companies are subject to, and it would not be mixed up in the tremendous volume of ordinary banking business, and you could give service to the country just as well thereby.—A. Well, that is a new proposal. I am thinking of it. Offhand, I do not know that it would be essentially different in operation.

Mr. HUNTER: It would be more profitable.

The WITNESS: Than to operate by means of a separate department. Now, I am not sure that it would be considered feasible for a wholly owned subsidiary of a chartered bank in Canada to undertake operations which are designed to enter into a field not already provided for in the Bank Act or sanctioned.

By Mr. Tucker:

Q. You would have to get a licence under the Small Loans Act and then you would be under the supervision of the Superintendent of Small Loans in regard to the operations of that subsidiary.

The CHAIRMAN: I understood you to say earlier today that one of the purposes was to improve your public relations. Do you think you would improve your public relations by having something to do with a small loan company?

Mr. TUCKER: They could call their small loans company—just the same as they do their subsidiaries in the United States—The Canadian Bank of Commerce Small Loan Company and carry on the business on their own premises just the same, and we would not be asked to change the Bank Act, which applies to a vast amount of business to meet the needs of this particular small group of people needing small loans.

The CHAIRMAN: But, Mr. Tucker, do you suggest that any bank in Canada could afford to be openly associated with a small loan company?

Mr. TUCKER: Why not, if it is worth while? Why not let them come under the act that covers it?

The CHAIRMAN: And still retain good public relations?

Mr. TUCKER: Why not if it is a public service and they are going to provide something just as any other small loan company?

The CHAIRMAN: Under the act they would have to provide money at the same rate as the others which is at the rate of 2 per cent interest per month for loans under \$500 and unlimited beyond that.

Mr. TUCKER: The small loan company provides a maximum on loans up to fifteen months at 2 per cent per month and over that if it runs to 30 months it would be one and one-half per cent. That is the maximum. I put to the witness that he suggests to this committee that we change the whole Bank Act so that they can come into this particular small loan business, or rather extend their small loan business. I asked him to consider this alternative; that they set up a subsidiary company to handle this business. It would not be under the Bank Act. Why not explore this possibility of setting up a subsidiary that would handle small loans just the same as they are being handled today, but which would be under the supervision of the Small Loans Act, in respect to small loans, and which would actually not require any amendment to the Bank Act in any way because, under the Small Loans Act they could take mortgages and so on as security. It seems to me, and I suggest that the witness answer that it is a more logical amendment for the committee to make to our system rather than to change the Bank Act to look after small loans, and that if this bank wants to engage in a public service—which I commend them for—that they set up a subsidiary to handle it. Some of them have done this in regard to owning their premises and engaging in trust company business, and I suggest this further activity to the witness and I ask him what is wrong with doing it?

The WITNESS: We have not come here to ask that this provision be put in the Bank Act for the benefit of our bank. We made this suggestion, and it is based on the experience we have accumulated over eighteen years because we felt that if these specific provisions were made, all banks would be encouraged to render a greater service. But we are not asking that this be put in for any one bank.

As to organizing or setting up a corporation as a subsidiary, I do not presently believe it is possible to do things in this way which you cannot do under the Bank Act.

By Mr. Tucker:

Q. There would not be anything to prevent the banks from setting up a subsidiary which could be licensed under the Small Loans Act. It would not require as big a change in the Bank Act. We should not shut our eyes to this question of the maximum interest rate and the provision that chattel mortgages can be taken by a bank. It would not mean such a fundamental change in the banking system as the amendments which you are suggesting.

The CHAIRMAN: That is something to think about.

Mr. FLEMING: Section 75, sub-section 2 of the Act prohibits the banks from engaging in any trade.

Mr. NOSEWORTHY: Does not Mr. Tucker's suggestion imply that the banks could then, through their subsidiary company, charge 2 per cent per month instead of the less than the one per cent they are now charging?

The CHAIRMAN: Mr. Tucker was suggesting something which was new. In any event, let us not get into that now.

Mr. CAMERON: Might I ask one or two questions ?

The CHAIRMAN: Yes, certainly.

Mr. CAMERON: If in the course of carrying out the functions of the Inspector General of Banks it was brought to his notice that a bank was charging 15 per cent on loans, what action would the Inspector of Banks be obliged to take?

Mr. ELDERKIN: We would report it to the minister, and he has the right to penalize the bank under the act.

Mr. CAMERON: If it was brought to your attention that the bank was charging 10.46 per cent, which is more than section 91 permits, what would be your reaction?

Mr. ELDERKIN: The bank does not charge more than section 91 permits, because section 91 says that they may charge a rate of discount of 6 per cent and according to the evidence they are charging a rate of 6 per cent. They require the borrower to escrow funds with which to make payments back of that loan, but the rate of interest that they charge, or the rate of discount is 6 per cent.

Mr. CAMERON: I take it then that the opinion of your department is that the legal opinion to which Mr. McKinnon made reference once or twice is an unassailable legal opinion?

Mr. ELDERKIN: It was accepted as such when I came on this staff; it was an accepted opinion.

Mr. MACDONNELL: Is there anything for the record about the work which the small loans do?

The CHAIRMAN: Just the total for the small loans of the Canadian Bank of Commerce.

Mr. TUCKER: There is a discount of 6 per cent and I emphasize the words per annum.

Mr. ELDERKIN: The rate of discount, Mr. Tucker.

The CHAIRMAN: Gentlemen.

By Mr. Tucker:

Q. Do you give full effect to that six per cent per annum when you sanction a proceeding like this?—A. It has been interpreted as such. Anytime a borrower had a deposit account of any kind he would affect his effective rate. It happens all the time.

Mr. Low: There does seem to be some doubt on the part of some members of the committee about the legality of the procedure used by the Canadian Bank of Commerce in connection with their personal loans. I suggest that someone be called from the Department of Justice to clarify that whole situation before the committee prior to our going further in considering the proposal.

The CHAIRMAN: Mr. Low, Mr. Elderkin stated just a few moments ago that their department had reached the conclusion that this was legal within the meaning of the Act. They undoubtedly discussed the matter with the Department of Justice.

Mr. Low: He did not say that.

Mr. FLEMING: Will Mr. Elderkin tell us that? I think he should be asked that.

Mr. Low: I would suggest that someone ask a representative of the Department of Justice to give an official opinion on this thing, so it will set at rest any ideas of illegality which might be in the minds of the members of the committee.

Mr. MACNAUGHTON: Has it ever been contested in court?

The CHAIRMAN: I am sure if it was illegal the small loan people would have contested it years ago because they have cut into the small loans business.

Mr. MACNAUGHTON: Has there ever been a court case?

The CHAIRMAN: I do not know.

Mr. Low: I am not suggesting they would tell us it is illegal. I made my suggestion only because there are quite a number of members of this committee who carry with them the idea that this is illegal.

Mr. FLEMING: Perhaps Mr. Elderkin could tell us if the matter has ever been referred to the Department of Justice for a ruling?

Mr. ELDERKIN: To the best of my knowledge, no.

Mr. CAMERON: Mr. Garson said on the floor of the House the Department would not give a legal opinion. Would it be referred to the Department of Justice?

The CHAIRMAN: Mr. Garson would not give a legal opinion to you or to me on the floor of the House. The Department of Justice would give a legal opinion to another department.

We cannot sit on Wednesday and we are not able to sit Thursday morning because of lack of accommodations so we shall sit tonight at 8 o'clock in room 430 at which time we hope we can complete the verbal evidence of Mr. Atkinson and start on the bills on Thursday afternoon.

The meeting will adjourn until 8 o'clock, Mr. Atkinson will be our first witness.

EVENING SESSION

The CHAIRMAN: Gentlemen, Mr. Atkinson is our witness and he has a few answers for Mr. Tucker.

Mr. T. H. Atkinson, President of The Canadian Bankers' Association and Vice-President and General Manager of the Royal Bank of Canada, recalled:

The WITNESS: Mr. Tucker, following the morning meeting I got in touch with our supervisor of branches in Saskatchewan. You asked whether or not there had been any demand for a longer term on implements than the three years provided by the Act. He tells me that there have been occasional requests for a longer term, very occasional, but that may not indicate the whole situation because people are so used today to buying on a three-year term that they may just meet it and do not ask for a longer term. His opinion is that in perhaps 25 per cent of the cases a slightly longer term, say four years, would be used if it were available, but he does not think much more than that.

By Mr. Tucker:

Q. In your opinion, Mr. Atkinson, would it be more desirable to have at the outset the period set at four years so that repayment could be made without straining the resources of the farmer or without the necessity of renewal.

Which is more desirable, having it set at four or five years at the outset or having terms that are going to be very hard to meet, which will lead, if things continue as they appear to be now for the next two or three years, to the necessity of renewal of these obligations?—A. Mr. Tucker, I hesitate to pass an expression of opinion on a government Act where they are providing the guarantee and I think I simply have to fall back on what I have said, that it is the opinion of our Saskatchewan supervisor that about 25 per cent would use a longer term if it were available. You asked a second question, if I might go on to that, as to what is happening now that wheat is rather slow in moving. He tells me that within the full term of the borrowing, which is three years, the notes are merely allowed to remain past due. That is general practice of all banks in Saskatchewan and I presume in the other provinces, but certainly in Saskatchewan. At the end of the full three-year period if they are still past due, then, under the Act, we must apply for an extension after ascertaining what term the farmer will need in order to clean up his obligations. Generally speaking, he tells me that renewal, if and when necessary, is for two years, 50 per cent on the first year and 50 per cent on the second year, and he has not had one single case where the department has not approved the renewal.

Q. That is very satisfactory and I am glad to hear it. Now, does that business of applying for a renewal, will that prejudice the position of the farmer if he has got to borrow to cover his expenses of seeding or harvesting due to inability to market his crop?—A. No, I would say, generally speaking, no, at least.

Q. Now, then, I think you said that the banking association has given no thought to some similar scheme to assist in the problem of longer term financing?—A. That is right.

Q. There is no doubt that it is, I think, one of the big problems facing us in western Canada, and I think it is facing the people of Ontario too. Some of the people on the farms are growing older and they want to get enough money to retire and the tendency is to sell to people who can pay cash, and young people who would gladly stay on the farm are having to go to the city. Certainly that is true in Saskatchewan. Farms are rapidly growing, schools are having to close in the rural district. It would be a much healthier situation if the farms were not growing in size and it is largely due to a lack of credit for young people to enable them to get a start in farming, and it is a big problem. It seems to me that the banks who are dealing in credit should have some suggestion to make about it.—A. Well, as loaners of funds it is a very difficult problem to see any solution on our own. Firstly, we are not permitted to take security of real estate.

Q. That is going to be changed now?

The CHAIRMAN: It will in time, I agree.

The WITNESS: And, secondly, it is always difficult for a borrower who has no money to borrow unless he receives help from some source or other. The difficulty of establishing young people on farms is that there is no money to start with. I do not really believe that the banks can find on their own resources a solution.

By Mr. Tucker:

Q. Do you think there is any possibility of—instead of the tremendous expansion of the government directly going into this field—that there is any possibility of an extension in the idea of the Farm Improvement Loans Act and of having banks who are right on the ground, under some form of partial guarantee, extending credit in this field as they do in the Farm Improvement Loans Act?—A. You are asking me to express an opinion as to whether the government should do something or not.

Q. No, I am asking do you not think we are approaching a time when we should ask the banking institutions to enter this field instead of expecting the government to do it all. You see, in Saskatchewan today the mortgage companies are not lending at all on the farms. It is left entirely to the Canadian Farm Loan Board.—A. As I understand your problem, it is a case of establishing people on the farms without any down payment, or any reasonable down payment.

Q. No, it is not that, they would be able to make a reasonable down payment, but the trouble is today people want practically all their money in cash and there is also the question of getting the necessary equipment. If things were the same as they were 20 years ago the same people could buy a farm with a down payment and they would buy their equipment to some extent on time, and they would get going as their fathers and grandfathers did before them. The people that we want to start farming today are actually better off financially than the generation who opened the country up, and yet here we are presumably with a better developed financial system and not able to do for the sons and grandsons what we did for the fathers and grandfathers in helping them get started?—A. I find it a little difficult to put the chartered banks in that position, Mr. Tucker. We are not equipped for that type of loaning and, while anything is possible, at the moment I do not see that the answer rests with the chartered banks.

Q. You would rather see the government expand its direct activities than the banks take a share in it. This is a challenge to the banking system, Mr. Atkinson. If the banks do not get into this field—it has got to be entered and looked after, and if the banks do not do it the government is going to be forced into it, and if the banking system has not considered this situation, I think it is high time they did and came forward with some suggestions, because it is a real problem. It has a royal commission investigating the situation in Saskatchewan and we have had a brief of the farmers' unions of the West suggesting the setting up of a new banking institution.—A. Well, I would be very happy to tell you that the bankers will consider it, Mr. Tucker. I think that is as far as I can go tonight.

Q. Now, then, there was one thing I was very interested in. You could probably tell the committee some of whom are familiar with it, but why is it that there has been such firm opposition to the banks being permitted to take chattel mortgages at the time of making an original loan, that is you can take a chattel mortgage as additional security but you cannot take a chattel mortgage except for seed grain and special things at the time of making the original loan? Now, what has been the reason for that prohibition?—A. I can only assume, Mr. Tucker, that legislators in the past felt that banks should not become tied into longer term commitments which would be involved in mortgages, either chattel or real estate.

Q. Is there any objection to giving the banks the right to take chattel mortgages today?—A. There is no objection I can see to allowing them to take chattel mortgages. I can see a lot of objections to foreclosing them.

Q. But you do not see any objection to it?—A. To being empowered to take chattel mortgages?

Q. Yes.—A. I can see no objection to that.

Q. It may lead to your banks being able to make loans to people borrowing small sums without having to pay 2 per cent a month to small loan companies for instance.—A. Oh, yes. That could be the result in some cases.

Q. And it could be the result that the banks in general if they had that power might be willing to make loans without getting a higher rate than the present 6 per cent. Whereas, today in the case of a man wanting a loan of \$200 or \$300 and not being able to produce an endorser, the banks would be

more inclined to refuse him?—A. I would think that there would undoubtedly be some cases where borrowing would become possible where it presently is not.

Q. And you do not see any disadvantage in the thing? That is what I have often wondered about; why this prohibition on the banks being able to take security which is sometimes the only security a man has to offer. They can take it as additional security after the loan becomes in default, but cannot take it in the first instance. You do not see any objection to that?—A. No.

Q. There was one other question. I was asking Mr. Atkinson to give us some figures on the cost of money to the banks and what they received from their loans and investments?—A. The cost of the funds as reported by our cost committee—the cost of funds used in investment, is reported at 2.314 and the average yield on investment 2.809.

Q. That is the total cost including interest paid and cost of administering the banks?—A. That is right. All these costs are prior to losses and taxes, but otherwise the costs of operations are included.

Q. Except for losses and taxes?—A. Yes.

Q. The yield, 2.809 on investments, that gives you a profit of less than half a per cent?—A. Just slightly under one half per cent.

Q. Out of which you must pay your taxes and losses. There would not be any losses on investments?—A. There has been in the past. There could be. You asked me if I could segregate Dominion of Canada bonds. That is not possible. All investments are lumped together for this study. There have been no losses on Dominion of Canada bonds, but there have been losses in the past 25 or 30 years in municipal bonds, and certainly loss of interest on provincial bonds, but I do not think that there has been a loss of principal.

Q. This cost of funds used in investment, that is in bonds, and so on, does that include interest at the 2 per cent rate or $1\frac{1}{2}$?—A. That is calculated on the 2 per cent rate presently in effect.

Q. I see, and now then, I do not know what you would wish Mr. Chairman, but I would like at some time to ask a question about these small loans.

THE CHAIRMAN: I am sorry, another member was in ahead of you. Mr. Fraser.

By Mr. Fraser (Peterborough):

Q. I would like to ask Mr. Atkinson if the Bankers' Association has discussed the proposal put forward in the brief presented by Mr. McKinnon, and if so, what they think of it?—A. The general managers here last week and here today have discussed it amongst themselves. That does not include all the general managers. There are three or four away today and I believe there were two away last week. But, we have had quite a little talk on the matter.

Q. Have you come to any conclusion in regard to the matter?—A. No. I am afraid that there are several differences of opinion.

Q. May I ask what you think of it?—A. It is rather a broad question.

Q. Chattel mortgages were mentioned. Now, what do you think of the banks stepping into the field of the small loans and taking chattel mortgages? I think that Mr. McKinnon said they would not go into the automobile field, but it would be the field of television sets, washing machines, ironers, refrigerators, and so on.—A. Mr. Fraser, we have always been in the small loan business. So long as I can remember over my 40 odd years of experience we have never failed to make small loans in every branch of the bank. As at the last report I have here we have outstanding in Canada well over 100,000 personal loans amounting to many millions of dollars. Mr. Tucker asked me what would be the result of being able to take a chattel mortgage. I would assume that to a degree, that we would be able to make additional loans if we were to take chattel mortgage security. It seems to me unquestionable that

there would be certain cases that if we were able to take that security from a man who had no other security certain loans might be made which today would otherwise be turned down.

Q. May I ask you this: do you think that by taking chattel mortgages on different things like that that it would lower the prestige of the banks?—A. I would not think that would be the natural result. I think it would more likely be regarded as a helpful function of the banks and I would be rather surprised if it lowered our social standing appreciably.

Q. You consider that it does not apply at the present time?—A. We hope so.

Q. Do you feel that by taking of chattel mortgages you could operate on a 6 per cent interest rate, or would you have to have a raise to 12 per cent, a straight raise?—A. Having operated up to date on a 6 per cent rate, I do not think any bank makes any money out of small loans at a 6 per cent rate. I do not know what the additional expenses might be by taking chattel mortgages as security as against our present method of operation, whereby we normally take endorser security; it would probably be a little bit more, but without experience I could not say.

Q. Under the way in which some businesses are operated at the present time, with no money down and time to pay, I understand that works out in this way that you buy a refrigerator and when it is delivered to your home you simply sign a slip in favour of the finance company, and in this case it might be in favour of the bank. Do you think that is a good way in which to do business?—A. I would hardly think that a bank would be expected to loan 100 per cent of the value of the article, if a man had nothing more than that as security to offer.

Q. You have the chattel itself.—A. I think that most bank managers would not regard that as a very attractive loan to place with the bank.

Q. With the loans that the bank would be able to give, with chattel mortgages, it would make it easier for people in need to get a loan. Do you figure that the increase would be quite substantial?—A. My opinion would be that on that alone the increase would not be substantial; there would be cases but I would not think there would be a terrific number of cases.

Q. Mention was made by Mr. McKinnon of their credit system and that they had a credit list, I believe it was; and I suppose that the bank would have to go to the credit associations in the different cities to find out about their clients, and whether they should lend them money or not. Do you think you would have to do that?—A. Under our operations up to date with these personal loans, they are made in our own branches and made to people whom our managers know and are able to assess the risk.

Q. With people coming in, you would have to scout around and find out what their background was?—A. That is regular loaning activity procedure.

Q. And you would do it?—A. Yes; the manager must assess the risk and he must of course get information where he can, in order to assess the credit risk.

Q. Then you do not believe it should work out as Arthur Godfrey said; he said that his great ambition was to have credit; so he went out and bought a suit of clothes and got credit; and after that he went out and bought an automobile. He got that on credit too, and he said to the bank manager: the clothier and the automobile agent have given me credit. And the bank manager said; you may have anything you want. And then he built a house. I do not believe the banks here in Canada would operate like that, would they?—A. I hope that our managers would investigate the credit risk a little more closely than that.

Q. I think that is all I have to ask.

The CHAIRMAN: Now, Mr. Tucker.

By Mr. Tucker:

Q. Have you got the figures and the total interest paid to the chartered banks since December 31, 1935? I do not know if I asked you for them before, but I want to have the figures if you have them.—A. You mean the total interest paid?

Q. The total interest paid to the chartered banks since December 31, 1935.—A. I do not believe you asked for them. They are in an exhibit; there are some figures in that exhibit for 10 years.

Q. I was interested in that from the standpoint of the suggestion of our Socia^l Credit friends that the total interest payment far exceeded the amount of new money which was put into the system to cover it, and I wondered if we had at some place got that into the record, showing the total interest payments to the banks since December 31, 1935.

The CHAIRMAN: Mr. Tucker, could you be more specific in your question?

By Mr. Tucker:

Q. I wanted to get the interest paid to the banks on loans to individuals and to businesses?—A. Well, Exhibit 11 contains the total interest on discounts and loans.

Q. What page is that?

The CHAIRMAN: Page 795.

The WITNESS: For that 10-year period.

Mr. TUCKER: I suppose—

The CHAIRMAN: We will have it calculated for you in just a minute. He is adding it now.

Mr. ELDERKIN: I can give it to you.

The WITNESS: The average for the past 15 years, ending 1953, appears on page 796 as 96·3.

Mr. TUCKER: That is \$96,300,000?

The WITNESS: That is the average, and if you multiply it out you will get a figure of \$1,445 million for the 15-year period.

The CHAIRMAN: And the figure which you had in mind was \$2,200 million? That was the figure you had in mind?

Mr. TUCKER: Yes; it was, roughly, an increase in money put into the system by the Bank of Canada of \$1·9 hundred million, or nearly \$2 billion; and I had in mind the total interest paid; you say it was during a 15-year period, and was about \$1½ billion?—A. Yes, \$1,445 million.

Mr. Low: To the banks?

The WITNESS: Interest and discount.

Mr. TUCKER: That is the total?

The WITNESS: Yes.

By Mr. Cameron (Nanaimo):

Q. That must be just interest on discounts and loans.—A. Yes.

Q. There is nothing for dividends?—A. No.

Mr. TUCKER: I think that is all.

The CHAIRMAN: Now, Mr. Cameron.

Mr. TUCKER: Except on the question of personal loans again.

The CHAIRMAN: We are on personal loans now.

Mr. TUCKER: I would like Mr. Atkinson to tell the committee what he thinks the attitude of The Canadian Bankers' Association is towards the suggestion made by Mr. McKinnon.

The CHAIRMAN: He was asked that by Mr. Fraser.

Mr. FRASER (*Peterborough*): Yes, I asked that question.

By Mr. Tucker:

Q. I have two or three definite questions then. Do you think it desirable to have a maximum rate of interest established in the Bank Act at 6 per cent?—A. I do not believe that the maximum rate of interest—my personal opinion is that the maximum rate of interest is not essential because I think that competition will always fix the proper maximum rate; but I have not any quarrel with having a maximum rate put in.

Q. Do you not agree with the suggestion that under the system followed by Mr. McKinnon's bank, this ingenious system, whereby they can realize over 10 per cent on the money outstanding, if the Banking and Commerce Committee knowing that accepts that and makes no recommendation about it, it in effect abrogates the actual provisions of the law, and we could hardly expect the Inspector-General of Banks to take any step in respect of all banks charging that on any loan they want, or charging 10 per cent, when the Banking and Commerce Committee heard evidence of it being done and made no recommendation?—A. I do not think I would be expected to answer that question. I can say, however, that we do not charge over 6 per cent.

Q. You do not charge it because, as I understand it, in your opinion it is contrary to the second subsection of section 91 of the Bank Act, which I mentioned, that is, the second subsection to section 91, and the penalty section, 155; and in your opinion it runs contrary to that section?—A. We have a solicitor's opinion to say that it is contrary to section 91 and for that reason we have never gone into that field.

Q. So your attitude is that we do something by granting the right to the banks to take chattel mortgages in respect to small loans—and further your attitude is that you have no desire, as I understand it, to have the right to charge 12 per cent interest on those small loans?—A. I think I would have to answer that as I answered the housing line of questions, that we had no idea of seeking such legislation, nor would we have sought it; but if such a provision were in effect, we would probably, I think unquestionably, use it to some degree.

The CHAIRMAN: Now, Mr. Cameron.

Mr. CAMERON (*Nanaimo*): If there are any others who want to ask questions on small loans, I wish they would do so now, because I want to go on to some other subjects.

By Mr. Crestohl:

Q. Following the questioning by Mr. Tucker, the committee has heard that small loans—that the people of Canada can get loans repayable on a weekly or monthly instalment plan at 12 per cent, and it was demonstrated to us very clearly in the brief, and we certainly would not or should not close our eyes and ears to it. We were also told that the people of Canada were able to pay 24 per cent for the same kind of servicing; consequently we wonder if you as a banker of note can point out to us why this committee should not entertain the project presented to us by the Bank of Commerce?—A. Well, Mr. Crestohl, I personally am bothered by two thoughts and I am not at all sure how valid they may be. All such loans would be within the discretionary limit of our managers as to the amount and therefore the head office or I, as general manager, would have nothing to say about which loans were turned down and which loans were accepted in the 6 per cent category of ordinary bank loans, and which were accepted in the higher rate category. I have listened to Mr. McKinnon's explanation as to how their people differentiate

one as against the other, but I would find it very difficult to say what would happen in any branch bank to a man who had been a borrower at 6 per cent from time to time for modest amounts and who came in for a loan, if the projected legislation was on the books. I am sure that there would be situations where he would simply find himself a one-per-cent-a-month borrower. I think that anybody who would maintain otherwise would certainly be rather gullible. To what extent that would be, I do not know, but it does bother me a little to estimate in my own mind just what the managers of our bank would do about it, particularly when there is no way that the executive officers of the bank could dictate whether or not a man got a loan for 6 per cent or whether he paid a higher rate. The other thing that bothers me just a little—and it is presumably, I hope, temporary—is that the branches of our bank are by and large considerably crowded today. We have not been able to extend them physically as fast as the business of the country has grown, and we are just now embarking on the loaning of money for new homes, with the result that they will be more crowded. It may be temporary, but I would think that for the immediate foreseeable future, if such legislation were passed, I am afraid we would not be able to do the kind of job that the legislators would hope for. We would have to wait until such time as we were physically adjusted to handling a larger volume.

Q. I am sure you will admit that the second reason you gave is not quite as serious as your first one.—A. No, it is purely temporary, I hope.

Q. Getting back to the first reason you gave: assuming that legislatively a yardstick was developed which might assist the branch bank managers to differentiate between the one and the other. If you were a member of this committee, would you not feel that it would be our duty to try to provide the people of Canada with money at 12 per cent rather than what they are paying now, 24 per cent, and bearing in mind, too, Mr. Atkinson, that I am not now speaking of small loans to finance a car or a frigidaire—I am speaking of a man coming in to borrow money and offering you a satisfactory endorser.—A. I do not think I should be asked to express an opinion as to what the committee should do.

Q. No, this is a duty which we have to the people of Canada, and I am sure you have, too, and we are only soliciting your opinion as an expert in this field.—A. As I say, we make a great many personal loans to people in that category every day of the banking week. We have presently in excess of 100,000 of such loans on our books.

The CHAIRMAN: He does not claim to be an expert in that field.

Mr. CRESTOHL: I do not accept that. I think he is the expert, and his modesty would not impress me.

The CHAIRMAN: Mr. Cameron, can you change the subject?

Mr. CAMERON: I have another matter.

The CHAIRMAN: Mr. Noseworthy first.

Mr. NOSEWORTHY: I think that one of the problems the committee has to face is this question of small loans. You have many people who have to make those small loans. Can they be provided without having to go to finance companies and pay 24 per cent? I noticed in the returns that the amount of small loans made by the Canadian Bank of Commerce, for instance, under their personal loan scheme is very small as compared with the amount loaned by finance companies at the higher rate. I think that we have to give some consideration to ways and means of using the banking system whereby people can borrow from the banks, even if they have to pay 12 per cent. It is only half of what they are paying finance companies. Any suggestion that you, as the

president of the Canadian Bankers' Association, could give us, or the bank managers could give us, in drafting legislation that would achieve that object would, I think, serve a good purpose. I found, for instance, during the gold mine strike in northern Ontario, that over 90 per cent of the members of those miners' unions were in debt to finance companies. So in some sections of Canada there is an enormous percentage of the population going to finance companies and paying through the nose. Now, I think we should get some suggestion from the bankers' association as to how we can save the people from that dilemma.

By the Chairman:

Q. Mr. Atkinson, here is the proposition. What troubles me is that your first reason for not favouring this personal loan scheme or some other such scheme is that you are afraid that your own bank managers will not give the public a fair break. That is what I gathered from what you said. That shocked me a little, and I hoped that I was mistaken in that inference. If the public of Canada cannot feel absolutely secure and feel that they receive the utmost justice and fair play when they walk into a bank, then what are we to say and do to establish confidence in our public institutions, and particularly in our great banking system?—A. Mr. Chairman, you rather shocked me a little in taking that inference from what I said.

Q. Please correct it. Some of the other members I think, drew the same inference.—A. I was giving a realistic appraisal of what would be the reaction of many branch managers. I would hesitate to say that it is on a basis of not giving anybody a square deal, but there are bound to be questions of judgment as to whether or not a man is entitled to a 6 per cent rate and whether or not he must borrow under some other scheme. You heard the witness today pointing out that in his bank they do some in the one case and some in the other. So of necessity there must be that decision to be made, and I am perfectly satisfied that every single one of our managers would make that decision with the best judgment he had. In other words, I am perfectly certain that he would not in every case put a man in the high interest bracket. That would certainly shock me. I know that would not happen. But I am being perfectly honest when I say it disturbs me a little that a manager is going to be in the position, if this legislation is placed on the books as proposed, where in every single case of a personal loan he will be forced to make that decision and no two men would probably face the same set of circumstances and make the same decision. I do not say this in any critical vein, Mr. Chairman, but from a purely realistic point of view of what appears to me as likely to happen.

The CHAIRMAN: We make allowances for the average number of mistakes that a bank manager will make. We think he will make some mistakes—although we hope he does not. Here we have a real problem. A great many of our little people have to go to the small loan companies which are charging them 2 per cent a month up to \$500 and then anything they can get above that. There is no law to prevent them charging anything they can get in loans above \$500 except the law of usury which has not been enforced in this country for a generation. In Canada we have great banking institutions with enviable reputations spread across this country. Profits are good, they stand high in the esteem of the people and they are giving good service. We are faced with the problem of helping these little people. How can anyone else help them if we do not help them at the legislative level? We cannot do away with the small loan companies because there is a need for them and we must make some provision for these people who need them. Why cannot the banks help us solve this problem which is all that the members of this committee are

asking? It may present some physical inconvenience to you. You may not have enough room. How can you help us solve this very important problem? That is all we are asking you.

Mr. JOHNSTON (*Bow River*): I would like to ask a question.

The CHAIRMAN: One minute, please. That is the problem. We on this committee are not bankers—our experience with the bank has been that of a client. You are the expert and we ask you for help in solving this vexing problem. Mr. McKinnon of the Canadian Bank of Commerce has presented his solution. It may not be the solution, we do not say that it is. You are the president of the Canadian Bankers' Association. You are the leading banker in Canada who has appeared before this committee and we are asking for your assistance.

Mr. CRESTOHL: I am pleased to hear that you have changed your mind and declared that the witness is the expert I thought he was.

Mr. CAMERON (*Nanaimo*): He merely has said that he was the president of the Canadian Bankers' Association.

Mr. JOHNSTON (*Bow River*): May I ask a question?

The WITNESS: Mr. McKinnon presented a proposal based on 18 years of experience and while I appreciate your comment that I am an expert, I am not an expert in this particular type of loaning, because we are completely inexperienced in that specialized field. Nothing would give me greater pleasure than to be of some assistance to this committee in any of its problems and I would not want anything I have said to be taken as critical of the proposal that the banks should enter this field in a broader way. As I have said, we have been prohibited from it by a legal opinion on which we must rely that it would be a breach of section 91. If legislatively the way could be cleared, we would, as we have always done in the case of any legislation, enter it whole-heartedly and try to do a job of it and I think we would do a job.

Mr. CRESTOHL: Hear, hear.

The WITNESS: As far as being of assistance is concerned, I think it would be impertinent on my part to tell you that you should, let us say, grant a higher rate of interest. That is not anything on which I can reasonably give you an opinion.

Mr. MACDONNELL: But we are used to having people be impertinent to us, Mr. Chairman!

The CHAIRMAN: I think I can say for this committee—I do not speak for the committee but I think I speak for the committee's conscious—it will not grant an increased rate of interest, you can depend on that.

Mr. NOSEWORTHY: One more question on that point.

The CHAIRMAN: Neither one of us has asked a question—we have both made speeches. Will you ask a question?

Mr. NOSEWORTHY: Yes. Mr. Atkinson, I have heard it said many times, and I think a great section of the public believe it is true, that the banks keep out of the small loan business because they find it more profitable to lend or advance money to the finance companies—more profitable with less risk. I do not believe there is any truth in it—

The WITNESS: I would think the figures speak for themselves. In view of the fact that all banks have very numerous small loans on their books—in our case it is over 100,000 at any one time.

The CHAIRMAN: I do not think you understood his question.

The WITNESS: He said we lend to the small loan companies rather than to individuals?

The CHAIRMAN: Yes.

The WITNESS: But I think the figures show we do lend and that we always have. At all times we have hundreds of thousands of loans on our books. In other words, I am quite satisfied that every branch manager in Canada prefers to grant a loan rather than say "no".

The CHAIRMAN: But are the small loan companies increasing their business?

The WITNESS: Yes, I believe that is true from any statistics I have seen.

Mr. JOHNSTON (*Bow River*): I have a question along this line. I was somewhat surprised at the chairman's evidence in advocating an increase in the rate of interest.

The CHAIRMAN: The chairman did not advocate an increase in the rate of interest.

By Mr. Johnston (Bow River):

Q. Mr. Atkinson, you did say though that your bank made very extensive personal loans?—A. That is right.

Q. To the extent of several hundreds of thousands of dollars?—A. Millions of dollars.

Q. And you made them at 6 per cent?—A. That is right.

Q. If you were given the advantage of accepting chattels on that you would be able, I think you said, to extend that loan business to a greater extent than you are doing?—A. I would accept that as a logical assumption. There must be some cases where the chattel mortgage would stand up as security where we cannot take it today.

Q. And you would not necessarily have to charge a greater amount of interest than 6 per cent, if any?—A. As mentioned, I do not know what additional expense the taking of chattel securities would entail. I do not know.

Q. You would have to investigate that situation, anyway. The mere fact you take a chattel would not give a maximum of more than one per cent interest, anyway?—A. I would not like to venture a guess, Mr. Johnston. Frankly, I would not know whether it would take a manager five minutes or an hour in taking a chattel mortgage.

Q. Would you admit it would take an increase of up to 12 per cent? That doubles the rate of interest you are getting now and you are doing very well on it. Would it be doubled?—A. I could not say we are making a profit on our small personal loans.

Q. You are not taking a loss?—A. I would be rather inclined to think it does represent a loss. I cannot prove that and I would rather leave that as a guess.

Mr. CRESTOHL: On Mr. McKinnon's figures it would represent a loss.

Mr. JOHNSTON (*Bow River*): I am not talking about Mr. McKinnon's figures, but about the evidence Mr. Atkinson gave us. I would not think the bank would go ahead and do millions of dollars of business in the small loan field if they were actually operating at a loss. I think they are too good businessmen for that!

The CHAIRMAN: Just ask questions.

Mr. JOHNSTON (*Bow River*): I am just following your example!

The CHAIRMAN: Then change your habits!

By Mr. Johnston (Bow River):

Q. You are doing a very substantial amount of business as was suggested by Mr. McKinnon, are you not?—A. Not in the same type of business.

Q. But in the small loans business?—A. In the small loans business, yes, but not in the specialized field.

Q. Not to the extent probably he would go?—A. I think it is a somewhat different business in that our personal loans are not necessarily monthly payment loans.

Q. They are not long-term loans, are they?—A. No, they are not long-terms but a loan, for instance, repayable in six months in the full amount does not represent nearly the amount of time and effort that a loan payable in instalments and so on does represent. Frankly we have not costed our small loan business, therefore I cannot tell you what the real profit picture is on it. It is merely a part of our ordinary branch business.

Q. I understand that if you are allowed to take chattels whereby you could extend this type of business if you so desire it would be an accommodation to the public and there would not be the necessity then of granting the banking institutions permission to increase their rate from 6 per cent to 12 per cent. Now, is it not a fact too there may be—I am asking you something you do not know, that the small loan companies when they charge 2 per cent a month, that was established by law, was it not?

The CHAIRMAN: Yes.

Mr. JOHNSTON (*Bow River*): And there has been some objection here in the committee about the small loan companies charging 2 per cent a month, 24 per cent a year, is not all that would be necessary if they were charging too much then by law cut that down to 12 per cent a year, would that not meet the objection of some of these men?

The CHAIRMAN: That is not Mr. Atkinson's problem, it is not for him to say.

Mr. JOHNSTON (*Bow River*): I was asking if that would not be possible and satisfy the suggestion made here that the 24 per cent rate is too high even for small loan companies?

The WITNESS: I do not think I should be asked for an opinion on that.

By Mr. Hunter:

Q. I am interested in the question of small loans. You say you make a large number of small loans, then you suggest you are not in the same field as, for instance, the Canadian Bank of Commerce and outline all the reasons why you are not in the same field, they have different terms of repayment, but aside from the difference in terms of repayment the procedure outlined by Mr. McKinnon, are they making loans to people that you would refuse loans to?—A. Well that I could not say, Mr. Hunter.

Q. Well, I am quite interested in that, do you think you are not loaning to the same type of people that they loan under their type of banking?—A. Well, in as much as they make loans within their branches the same as we do, and have in addition to that a personal loan department. We, as I understand Mr. McKinnon's evidence, have similar risks as those which their branch managers have on their own branch books. Then I must assume from that that they are running in their personal loan department risks which we would not have on our books. Otherwise our managers must have a different calibre of judgment than theirs because that is, as I understand it, where their main business comes from, to their specialized department.

Q. Yes, but they have terms of reference from a specialized department and certain things in one category and certain things in another, is it not likely you are also making loans to people who enter their terms of reference, or might fit into the 10 per cent category which you would not accept as a loaning risk?—A. I suppose there could be cases, Mr. Hunter.

Q. I just cannot quite follow that, every single loan they make under their small loan section would be a loan that your bank would automatically turn

down because you are not in that?—A. No, I can only go by Mr. McKinnon's evidence that if a loan is acceptable to the branch manager they place it in their own branches at the 6 per cent rate and do a great volume of that.

The CHAIRMAN: Mr. Low?

By Mr. Low:

Q. Mr. Atkinson, I think there is a job that the bank can do in the small loans field, and I would like to see provision made that they can do that job. Now, do you not think that if the type of amendment suggested by Mr. McKinnon of the Canadian Bank of Commerce were enacted into law placing the chartered banks in the position where they could legally charge a higher rate of interest that the customers of the banks themselves would pretty well police the whole situation? I mean to say, if there is any difficulty about how to classify an application for a loan on the part of the manager of the branch, do you not think that the customer himself is going to be the big factor in determining the classification?—A. I imagine he would argue very loud and long for a 6 per cent rate if he thought he could get it.

Q. If a borrower thinks he is a 6 per cent man and he is classified by the local manager as a 12 per cent man, do you not think he would yell pretty loudly?

The CHAIRMAN: But would he yell effectively?

Mr. Low: That is the next point, he has many other places, ten other banks to go to.

The CHAIRMAN: Yes.

By Mr. Low:

Q. And perhaps if he went to some others he could convince them that he was a 6 per cent man?—A. That is quite possible.

Q. All right then, it does seem to me that the customers themselves pretty well police the whole thing.

The CHAIRMAN: Are you not overlooking one thing, the man who obtains a loan from the small loan people is a man in urgent need of money.

Mr. Low: What we are trying to decide was how we can safeguard the position of the 6 per cent man under a 12 per cent arrangement.

The CHAIRMAN: I do not know how.

Mr. Low: I do not think that is a problem at all, I think the customers themselves have been accustomed to getting loans at 6 per cent will take care of it. It is a new fellow who has never had a loan that may find himself in difficulty.

The CHAIRMAN: Mr. Macnaughton, have you a question?

By Mr. Macnaughton:

Q. Mr. Atkinson, we have heard a lot about 24 per cent plus 6 per cent, would you say the justification for the higher rate, speaking generally, is due to the small amount of the loan and the amount of risk which usually on a small personal loan is much higher than on \$200, \$300, \$1,000, \$2,000 loan?—A. Both factors must of necessity have a bearing on the situation.

Q. In other words, would you agree that the cost of collecting a \$25 bad personal loan could be much more expensive than the cost of collecting say a \$2,000 personal loan.—A. I think it is reasonable to say that the cost of making a small loan is just as great as making a large loan. It takes the same amount of time and effort. The cost of collecting, of course, may vary depending on what means of collection you had to use.

Q. I was thinking of small loans and large loans and the justification for it. Obviously, if parliament granted a higher rate there was a reason for it, and it seems to me that the cost of collecting is very considerable and the cost of collecting small loans is higher.—A. It is, yes.

Q. Mr. McKinnon said his bank would not go into the field under a \$125 loan, if I understood him correctly, does your bank step into that field of convenience loans or accommodation loans or do you just transfer the trouble to the small loans people?—A. I would be very surprised if we did not have loans for \$100 or maybe a smaller amount on our books. I am sure we must have. I could not say definitely, but I am certain they exist.

Q. Will you refer that type of loan to the small loans field on account of the nuisance value?—A. I doubt very much if our managers refer anybody to a small loan company.

The CHAIRMAN: Mr. Philpott?

By Mr. Philpott:

Q. I have a couple of questions on another subject. To clear up some previous evidence I want to refer for a minute to transactions during the war where the government used direct credit, what you call deposit certificates. My recollection was from Mr. Towers' evidence and your evidence, a total amount of money was credited, about \$1- $\frac{1}{4}$ billion. I am not interested in the amount so much, but I want to clear up a point or two which was disputed in Mr. Maynard's evidence. Am I right in saying that the initiative for the creation of those credits in that way did not come from the banks; it came from the government?—A. Very definitely.

Q. And there was no suggestion by any bank of any kind of a holdup. They would not allow the government to create the money in that way without the payment of such and such a charge?—A. I would say there never was such a suggestion.

Q. My recollection was that the charge was something less than $\frac{3}{4}$ of one per cent. I forget the actual figures. But something like $\frac{3}{4}$ of one per cent, and that that figure was fixed merely as the necessary service costs to your banking institutions?—A. It was hardly the service cost. It represented according to a statement of Mr. Ilsley in the House the interest cost on the assumption that half of that money would flow into deposit accounts at $1\frac{1}{2}$ per cent, and would be the out of pocket expense for interest.

Q. There was no profiteering by the banks; it was purely a service transaction?—A. Actually the transaction as such represented an expense to the banks.

Q. And the banks raised no objection whatever to the government using that method of creating direct credit in a time of emergency?—A. I was not in a position of authority at that time, but to the best of my knowledge the banks agreed wholeheartedly to the financial suggestions of the government at the time.

Mr. HELLYER: Have we a breakdown of the outstanding bank loans by size of loan?

The CHAIRMAN: Not by size.

Mr. HELLYER: Is there any way we could obtain that information for the system as a whole?

Mr. ELDERKIN: We have no record of it.

Mr. HELLYER: It is something we should know so that we can tell just how many people are affected.

The WITNESS: Our outstandings in the Royal Bank are normally over 100,000 individual loans at any one time.

Mr. HELLYER: 100,000 loans altogether?

The WITNESS: That is under \$500. As at the end of October the average was \$164.

Mr. HELLYER: Would you have any idea of the ones between \$500 and \$3500?

The WITNESS: No.

By Mr. Hunter:

Q. Earlier you mentioned the discussions with the other bankers and I would be interested to know if you could give us what the consensus of feeling was. Was there a consensus or what was it so disjointed in opinion that it would be impossible to give us a consensus?—A. I would find it a little difficult to answer because there were various shades of opinion on different phases. Some of the other general managers are here. I think it is safe to say that the other general managers would not disagree with what I have said to any great extent. I hope that if they do they will hold up their hands and let me know.

By Mr. Crestohl:

Q. Do the banks lend money to the small loan companies?—A. I think every bank does.

Q. Could we have an idea of how much money during the year 1953 the chartered banks loaned to the small loan companies?

The CHAIRMAN: It is on record.

By Mr. Cameron (Nanaimo):

Q. I have a question which came up now since I heard Mr. Atkinson's answer to Mr. Philpott's question. Is it not true, that during the war years the net assets of the chartered banks of Canada increased very greatly?—A. The total assets?

Q. The net assets?—A. I do not know what you refer to by net assets. The total assets?

Q. The total assets increased considerably?—A. Yes, very considerably.

Q. And that was due to the war economy?—A. Due to the war financing, yes.

Q. It would not be correct to suggest that the chartered banks lost money—

The CHAIRMAN: That is not what he said at all. That was not the question.

Mr. CAMERON (Nanaimo): It was very close to that.

The CHAIRMAN: But, it was not the question. He was asked that question and he made a deliberate statement on it, then he was questioned. Mr. Philpott asked a different question. Ask him the question directly so that there is no misunderstanding.

Mr. CAMERON (Nanaimo): Well, I have asked it.

The CHAIRMAN: Mr. Atkinson, what is the answer?

The WITNESS: I have already put on record the profits of the banks during the war which showed a falling off.

Mr. CAMERON (Nanaimo): The reason I am asking this question is because certainly in my mind, and I think in the minds of many people, with respect to the actual transaction between the chartered banks and the government the impression would be conveyed that the chartered banks had been at least performing a service for Canada at no profit at all.

Mr. CRESTOHL: On those transactions?

Mr. CAMERON: All those transactions, yes, and that is only part of the operations of the chartered banks during the war because those transactions in themselves led to a very profitable business for the banks.

The WITNESS: Oh that, of course, is a different question. I think it would take a Solomon to trace out the various transactions and see that one led to the other.

By Mr. Cameron:

Q. It was obvious that those transactions are operated by the government of Canada and the chartered banks which created the wartime economy. Wasn't that true?—A. Quite, but I already put on record the official profits of the banks during the war years which showed a falling off.

Q. A falling off in relation to total assets?—A. No, a falling off in dollars as compared to pre-war years, and a very much enhanced falling off as compared to their total assets; and in actual dollars earned they were down as compared to pre-war years.

Mr. MONTEITH: Liabilities would increase as assets increased.

Mr. CAMERON: I know. And when I was out on the coast at Easter, I had two branch managers from different chartered banks discuss with me the question of salaries paid by the banks. Somebody asked what coast and I say the Pacific coast. That is the only coast. They were concerned because they were of the opinion that the salaries now being offered to young men were not attractive to the best type of young men to get them into the banking field, and that they were not the type of chaps who were attracted a few years ago. They said that such young men were now going into industrial offices or bond houses or import and export houses or insurance offices.

The CHAIRMAN: The range of salaries is on the record, as to the comparisons, you would have to make them for yourself.

Mr. FLEMING: Mr. Atkinson was not in a position to give the salaries of any banks other than his own; there was no information available from the other banks.

The CHAIRMAN: Yes, but surely it would be reflected in the other banks.

Mr. FLEMING: But he was not in a position to speak about the benefits.

The CHAIRMAN: That is right, but again you may rest assured that it is reflective of the benefits paid by the other banks.

The WITNESS: Our personnel department have told me repeatedly in the past three years that the calibre of the young men we are getting now is the best that they have had in a period of years.

Mr. FLEMING: Hear, hear.

Mr. CAMERON: It was not my opinion but the opinion of the two branch managers who were both concerned about it.

Mr. CRESTOHL: They are probably old-timers.

The CHAIRMAN: Now, Mr. Fleming, you will be the last.

By Mr. Fleming:

Q. I have three quite disconnected matters. The first is about the matter of lending on the security of chattels. Have you examined the amendment submitted by Mr. McKinnon, Mr. Atkinson? Have you any comment to make on the specific amendment? I am not speaking of anything in relation to rates of interest, but just the terms of the proposed amendment to section 75-1 in relation to the lending of money on chattel securities.—A. I have read it, but I think it is a matter for a legal mind to determine the actual wording.

Q. You would have no comment to make on it?—A. No.

Q. You may perhaps have read several briefs that were submitted to the committee but on which we did not hear oral evidence; I am thinking in particular of a brief from the Canadian Food Manufacturers' Association and of

the poultry industry of Ontario, proposing that money should be loaned on the security of poultry.—A. I have not read the briefs and I have not seen them; but poultry is already included in the revised Act.

Mr. CRESTOHL: I think the security would be taken up too quickly.

The CHAIRMAN: The briefs you refer to came in before they had seen the amendments to the Act.

By Mr. Fleming:

Q. Your comment then on the bank I take it does not require any further elaboration?—A. No, I do not think so.

Q. Then my last question is this: how is the Saturday closing of the banks working out both with regard to staff and with regard to service to the public? —A. As far as the staff is concerned, it is regarded very favourably by them.

The CHAIRMAN: It is popular?

The WITNESS: Very popular. We have heard almost nothing in the way of complaints from any part of Canada from the public. I frankly have not seen a single complaint since the first month when the first branches were closed and then it was an absolutely new idea.

By Mr. Fleming:

Q. Are you extending the practice of Saturday closing more widely now into the areas of smaller towns and villages?—A. From the inception when we closed branches in the very large cities only as an experiment and as an answer to our personnel problem, which was the real motivating force, there has hardly been a month when other branches were not closed. The practice which we followed from the inception was that not one single closing has been initiated by the head office. In every single case the rule is that it must originate at the branch; and if there is more than one bank in the town, the managers must be in agreement and they must report and be able to satisfy their various head offices that it is normal to have Saturday closings in that town, or at least not uncommon. And when they have discussed the matter with the town council and with the board of trade or the chamber of commerce, if there is one, and with representative clients—a few, not necessarily a great number—and they are satisfied that the closing in that particular point will not result in adverse criticism, then the matter comes to us and it is dealt with by a committee, and then it comes to the general manager for his O.K. as to the closing in that particular town or village, or whatever it may be.

The CHAIRMAN: Gentlemen, that concludes the verbal evidence before this committee.

On your behalf I thank Mr. Atkinson particularly and all the general managers of the other banks who have been regular attendants before this committee. They have been very helpful to us.

On Thursday afternoon we shall start dealing with the bills section by section.

HOUSE OF COMMONS

First Session—Twenty-second Parliament, 1954

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: DAVID A. CROLL, *Esq.*

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 28

Decennial Revision of the Bank Act

THURSDAY, MAY 13, 1954

WITNESS:

Mr. C. F. Elderkin, Inspector General of Banks

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1954.



NOTICES OF MOTIONS

TUESDAY, April 6, 1954.

Mr. Macnaughton—On the clause by clause consideration of Bill 338, An Act respecting Banks and Banking—That Clause 21 of Bill No. 338 be amended by adding thereto the following new subclause (4):

(4) *A person is not eligible to be elected or appointed a director after the first day of July, 1959, if he has reached the age of seventy-five years.*

TUESDAY, May 11, 1954.

Mr. Anderson—On the clause by clause consideration of Bill 338, An Act respecting Banks and Banking—That Clause 88, subclause 5, be amended by:

1. deleting the comma after the word "person" in line 24 thereof and inserting the following: *and concurrently accounts owing to primary producers for the selling price of fruits or vegetables in respect to deliveries thereof within a period of three months next preceding the making of such order or assignment,*
2. inserting after the word "period" in line 29 the following: *and such accounts owing to primary producers for the selling price of fruits or vegetables with respect to deliveries made during the period aforesaid;*
3. inserting after the word "employees" in line 30 the following: *and of such primary producers*

ORDER OF REFERENCE

THURSDAY, May 13, 1954.

Ordered,—That the name of Mr. Pallett be substituted for that of Mr. Adamson on the said Committee.

ATTEST.

LEON J. RAYMOND,
Clerk of the House.

MINUTES OF PROCEEDINGS

THURSDAY, May 13, 1954.

The Standing Committee on Banking and Commerce met at 3.30 o'clock p.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Anderson, Balcom, Benidickson, Boucher (*Res-tigouche-Madawaska*), Cameron (*Nanaimo*), Cannon, Cardin, Crestohl, Dumas, Fleming, Follwell, Fraser (*Peterborough*), Hanna, Hellyer, Henderson, Huffman, Hunter, Low, Macdonnell, MacEachen, Matheson, McMillan, Michener, Noseworthy, Philpott, Quelch, Stewart (*Winnipeg North*), Tucker, Weaver and Wood.

In attendance: Mr. J. E. Coyne, Deputy Governor of the Bank of Canada; Mr. C. F. Elderkin, Inspector General of Banks; Mr. G. K. Bouey, Assistant Chief, Research Department, Bank of Canada; Mr. T. H. Atkinson, President of the Canadian Bankers' Association and Vice-President and General Manager of the Royal Bank of Canada; Mr. Neil J. McKinnon, General Manager of The Canadian Bank of Commerce; Mr. W. T. G. Hackett, Assistant General Manager of The Bank of Montreal.

The Chairman laid on the table briefs from the following:

1. The League for Economic Democracy—*Appendix "A"*
2. Mr. Frank O'Hearn, Director of Research, The Office of Valuation and Exchange, Toronto—*Appendix "B"*.
3. Mr. E. S. Woodward of Vancouver—*Appendix "C"*

Ordered,—That the said briefs be printed as appendices to this day's evidence.

The Committee commenced a clause by clause consideration of Bill No. 297, An Act to amend the Bank of Canada Act.

On motion of Mr. Benidickson, the following proposed amendments to the said Bill were placed before the Committee:

Page 1, Clause 1, immediately after line 12, insert the following new paragraph (d):

- (d) "Deputy Governor" in sections 5, 6, 8, 14, 27 and 28, means the Deputy Governor appointed under section 6;

and reletter paragraphs (d), (e), (f) and (g) as (e), (f), (g) and (h) respectively.

Page 2, Clause 2, delete lines 14 to 30 inclusive and substitute therefor the following:

- (3) The Governor and Deputy Governor
- (a) shall each be appointed for a term of seven years during good behaviour;
 - (b) are eligible for re-appointment on the expiry of their terms of office; and
 - (c) subject to the approval of the Governor in Council, shall be paid such salaries as the directors from time to time determine, but no such remuneration shall be in the form of a commission or be computed by reference to the income or profits of the Bank.

(4) No person is eligible to be appointed or to continue as Governor or Deputy Governor who

Page 2, Clause 2, after line 42, insert the following:

7. (1) The Board may appoint one or more Deputy Governors who shall perform such duties as are assigned to them by the Board.

(2) A Deputy Governor appointed under this section is not a member of the Board.

Page 3, Clause 2, delete lines 8, 9 and 10; renumber (3) and (4) as (2) and (3) respectively, and delete lines 14 and 15 and substitute therefor the following:

(3) The Board may authorize one of the members of the Board or one of the persons appointed under section 7 to act as the.

Page 11, Clause 14, delete lines 29 to 35 inclusive and substitute therefor the following:

(4) Every return required under subsection (1) and (3) shall be accompanied by declarations, which shall be a part of the return, and the declarations, which shall be in the form set forth in Schedule B, shall be signed by the Chief Accountant or by the Acting Chief Accountant, and by the Governor or a Deputy Governor.

Page 12, Clause 15, line 5, delete the words "or the Assistant Deputy Governor".

Page 12, Clause 16, delete all of this clause and substitute therefor the following:

16. (1) Section 32 of the said Act is repealed and the following substituted therefor:

"28. Every person who holds office or continues to hold office as a Governor, Deputy Governor or director of the Bank, knowing that he is not eligible for such office, is guilty of an indictable offence and liable to imprisonment for not more than three years and not less than three months.

(2) Sections 33 to 36 of the said Act are respectively renumbered as sections 29 to 32.

Page 14, Schedule B, delete the words "or the Assistant Deputy Governor". The foregoing amendments were severally considered and adopted.

The respective Clauses and Schedule "B", as amended, were considered and adopted.

Clauses 3 to 6 inclusive were generally considered and adopted.

On Clause 7,

Mr. Quelch moved:

That Clause 7, relating to Section 18, subsection 1, paragraph (o) of the existing Act, be amended by deleting the words "and not more than twelve" where they appear in the 10th line thereof and substituting therefor the words "*and not more than such other percentage as may be fixed by the Bank of Canada*".

After discussion, and the question having been put, the said amendment was negatived.

Clause 7 was considered and adopted.

Clauses 8 and 9 were considered and adopted.

Clause 10 was allowed to stand.

Clauses 12 and 13 were considered and adopted.

Clauses 17 to 20 were severally considered and adopted.

Schedule C was considered and adopted.

After further discussion on Clause 10 it was allowed to stand for further consideration at the next meeting.

Thereupon the Committee commenced a Clause by Clause consideration of Bill No. 338, An Act respecting Banks and Banking.

On motion of Mr. Benidickson, the following proposed amendments were placed before the Committee:

1. Page 1, clause 2, line 14: delete the word "limiting" and substitute the word *restricting*.

2. Page 1, clause 2, delete lines 25 to 28 inclusive.

3. Page 2, clause 2, line 40: delete the word "or" and substitute the word *and*.

4. Page 3, clause 2, line 4: delete the word "limiting" and substitute the word *restricting*.

5. Page 10, clause 19, delete lines 25 and 26 and substitute the following words therefore:—*person, or to any shareholders; and—*.

6. Page 10, clause 19, line 43: delete the word "section" and substitute the word *Act*.

7. Page 12, clause 23, line 10, after the word "and" insert the following words: —*as a result thereof*.

8. Page 12, clause 23, line 11: delete the word "then".

9. Page 13, clause 30, line 18: after the word "and" insert the word *other*.

10. Page 15, clause 36, line 19: after the word "shareholders" insert the following words: *according to the books of the bank*.

11. Page 16, clause 41, line 43: delete the words "in value".

12. Page 17, clause 41, line 10: delete the words "amount of stock" and substitute the following words: —*number of shares*.

13. Page 17, clause 41, line 11: delete the word "shareholders" and substitute the words *shares held by each shareholder*.

14. Page 17, clause 41, delete line 13.

15. Page 17, clause 41, line 14: delete "(d)" and substitute (c).

16. Page 17, clause 41, delete lines 15 and 16.

17. Page 17, clause 41, line 17: delete "(f)" and substitute (d).

18. Page 17, clause 41, line 5: delete "(g)" and substitute (e).

19. Page 19, clause 48, line 5: delete the word "records" and substitute the word *books*.

20. Page 19, clause 49, line 43: delete the word "authorized" and substitute the words *made or recorded*.

21. Page 20, clause 51, line 29: delete the words "as provided by this Act".

22. Page 24, clause 58, line 20: delete the comma after the word "may" and the words "in his discretion,".

23. Page 26, clause 61, line 12: delete the words "from time to time".

24. Page 26, clause 61, line 17: delete the comas and the words "in his discretion".

25. Page 26, clause 61, line 30, after the word "shall" insert the words *as occasion requires*.

26. Page 26, clause 61, lines 30 and 31: delete the words "from time to time".

27. Page 27, clause 61, line 4: delete the words "during their tenure of office".

28. Page 28, clause 62, line 11, after the word "Parliament" insert the words *within fifteen days after the making of the order or, if Parliament is not then in session.*

29. Page 31, clause 70, line 28, after the word "profits" insert the words *exceeding the rate of eight per cent per annum.*

30. Page 31, clause 70, line 29: delete the words "exceeding the rate of eight per cent per annum,".

31. Page 31, clause 70, line 33, after the word "for" insert the words *ascertained and estimated.*

32. Page 33, clause 72, lines 10 and 11; delete the words "from time to time".

33. Page 33, clause 74, line 37: delete the penultimate word "or" and substitute the word *and.*

34. Page 35, clause 75, line 3: delete the word "secured" and substitute the word *guaranteed.*

35. Page 35, clause 75, line 7: delete the word "secured" and substitute the word *guaranteed.*

36. Page 35, clause 75, delete lines 25 and 26 and substitute the following words therefor:—*when a loan or advance to himself or a firm of which he is a member or a corporation of which he is a director is under consideration,—.*

37. Page 38, clause 81: delete lines 8 to 11 inclusive and substitute therefor the following:—

(a) *in the case of property acquired or held for its own use, from the day on which it ceases to be required for its own use, as determined by the directors, and*

(b) *in the case of other property, from the day on which it acquired the property.*

and forthwith after the expiry of that

38. Page 38, clause 82: delete line 35 and substitute therefor the following: *hydrocarbons in, under or upon the ground, in—.*

39. Page 39, clause 82, line 21: after the word "officers" insert a comma and the word *employees.*

40. Page 39, clause 82, line 28: after the word "to" insert the following words:—*do all or any of the following, namely,—.*

41. Page 40, clause 82: delete lines 12 to 39 inclusive, being all of sub-clause (5) of the said clause, and insert therefor the following:—

(5) *The rights and powers of the bank do not have priority over an interest or right acquired in, on or in respect of the property covered by security given under this section unless, prior to*

(a) *the registration of such interest or right, or*

(b) *the registration or filing of the deed or other instrument evidencing such interest or right, or of a caution, caveat or memorial in respect thereof,*

there has been registered or filed in the proper land registry or land titles office or office in which are recorded the rights, licences or permits referred to in this section.

(c) *an original of the instrument giving the security,*

(d) *a copy of the instrument giving the security, certified by an officer or employee of the bank to be a true copy, or*

(e) a caution, caveat or memorial in respect of the rights of the bank; and every registrar or officer in charge of such proper land registry or land titles or other office to whom a document mentioned in paragraph (c), (d) or (e) is tendered, shall register or file the same according to the ordinary procedure for registering or filing within such office documents that evidence liens or charges against, or cautions, caveats or memorials in respect of claims to interests in or rights in respect of any such property and subject to payment of the like fees; but this subsection does not apply if the provincial law does not permit such registration or filing of the tendered document.

42 Page 40, clause 82: delete lines 43 to 48 inclusive, being all of sub-clause 7 of the said clause, and insert therefor the following:—

(7) Notwithstanding anything in this Act, where the bank holds any security whatever covering hydrocarbons, it may take in lieu of such security, to the extent of the quantity covered by the security taken, any security covering or entitling it to the delivery of the same hydrocarbons or hydrocarbons of the same or a similar grade or kind.

43. Page 41, clause 84, line 14: delete the penultimate word “or” and substitute the word *and*.

44. Page 41, clause 85, lines 36 and 37: delete the words “making the advances.”

The foregoing amendments were considered and adopted.

Clause 1 was considered and adopted.

Clause 2 as amended was considered and adopted.

Clauses 3 to 18 inclusive were severally considered and adopted.

Clause 19 as amended was considered and adopted.

Clause 20 was considered and adopted.

Clause 21 was allowed to stand.

Clause 22 was considered and adopted.

Clause 23 as amended was considered and adopted.

Clauses 24 to 29 inclusive were severally considered and adopted.

Clause 30 as amended was considered and adopted.

Clauses 31 to 35 inclusive were severally considered and adopted.

Clauses 36 to 40 inclusive were allowed to stand.

Clause 41 as amended was considered and adopted.

Clauses 42 to 47 inclusive were severally considered and adopted.

Clauses 48 and 49 as amended were considered and adopted.

Clause 50 was considered and adopted.

Clause 51 as amended was considered and adopted.

Clauses 52 to 57 inclusive were severally considered and adopted.

Clause 58 as amended was considered and adopted.

Clauses 59 and 60 were considered and adopted.

Clause 61 as amended was considered and adopted.

Clause 62 as amended was considered and adopted.

Clauses 63 to 69 inclusive were severally considered and adopted.

Clause 70 as amended was considered and adopted.

Clause 71 was considered and adopted.

Clause 72 as amended was considered and adopted.

Clause 73 was considered and adopted.

Clause 74 as amended was considered and adopted.

Clause 75 as amended was allowed to stand.
Clauses 76 and 77 were considered and adopted.
Clause 78 was allowed to stand.
Clauses 79 and 80 were considered and adopted.
Clause 81 as amended was considered and adopted.
Clause 82 as amended was allowed to stand.
Clause 83 was considered and adopted.
Clause 84 as amended was considered and adopted.
Clause 85 as amended was allowed to stand.
Clause 86 was allowed to stand.
Clause 87 was considered and adopted.
Clause 88 was allowed to stand.

During the course of the proceedings, Mr. Elderkin answered questions specifically referred to him.

At 5.50 o'clock p.m., the Committee adjourned to meet again at 11.00 o'clock a.m., Tuesday, May 18.

R. J. GRATRIX,
Clerk of the Committee.

EVIDENCE

May 13, 1954.

3.30.

The CHAIRMAN: Gentlemen, I see a quorum. I will now file the following briefs: the brief submitted by the League for Economic Democracy which will be appendix "A"; and a brief submitted by Mr. Frank O'Hearn, Director of Research, The Office of Valuation Exchange, Toronto, which will be appendix "B"; and a brief submitted by Mr. E. S. Woodward of Vancouver which will be appendix "C". Mr. Anderson has filed a notice of motion for an amendment to clause 88 of the Bank Act which will be printed in the proceedings of last Tuesday, and will be available as quickly as possible. It has not yet gone to the printers.

Mr. FLEMING: Can you say anything to us about the nature of it, Mr. Chairman? Is it different in any respect from the amendment which was submitted to us by Mr. Cleaver and Mr. Robinson?

The CHAIRMAN: It was submitted to Mr. Ollivier for draftsmanship and it follows the same form.

Gentlemen, we are now on Bill 297 which is an Act to amend the Bank of Canada Act.

The CHAIRMAN: If you want a clause to stand all you do is say "stand" and your voice will be heard. You will recall that when the Minister of Finance was before the Committee he informed us that there would be certain amendments recommended for the consideration of the Committee. The amendments are before you on motion of M. Benidickson; as we go through the Bill I will read them in detail.

Clause 1?

1. Section 2 of the Bank of Canada Act, chapter 13 of the Revised Statutes of Canada, 1952, is repealed and the following substituted therefor:

"2. In this Act,

- (a) "Bank" means the Bank of Canada;
- (b) "Board" or "Board of Directors" means the Board of Directors of the Bank of Canada;
- (c) "chartered bank" means a bank to which the Bank Act applies;
- (d) "director" means a member of the Board of Directors other than the Governor or the Deputy Governor or the member acting by virtue of subsection (2) of section 5;
- (e) "Governor" means the Governor of the Bank of Canada or the person acting for him pursuant to this Act;
- (f) "Minister" means the Minister of Finance; and
- (g) "notes" means notes of the Bank of Canada payable to bearer on demand and intended for circulation."

There is an amendment to clause 1. Will you look at the amendment, please. May I say this: Paragraph (d) is amended by adding the words: "deputy governor" in sections 5, 6, 8, 14, 27 and 28, means the deputy governor appointed under section 6. That is the only amendment there is.

The CLERK: With the exception of relettering.

Carried.

The CHAIRMAN: Clause 2, page 2.

There is an amendment. It reads as follows:

Strike out lines 14 to 30 and substitute therefor the following:

“(3) The Governor and Deputy Governor

- (a) shall each be appointed for a term of seven years during good behaviour;
 - (b) are eligible for re-appointment on the expiry of their terms of office; and
 - (c) subject to the approval of the Governor in Council, shall be paid such salaries as the directors from time to time determine, but no such remuneration shall be in the form of a commission or be computed by reference to the income or profits of the Bank.
- (4) No person is eligible to be appointed or to continue as Governor or Deputy Governor who”.

Mr. MACDONNELL: Well, Mr. Chairman, I do not understand that. Clause 2, page 2. That is page 2 of the new bill and it says: “Strike out lines 14 to 30”—of what?

The CHAIRMAN: Of the new bill, and insert instead what is stated there.

Mr. MACDONNELL: It has been pointed out to me there is a strange thing here concerning the governor and the deputy governor. Section 6, subsection (a) says: “the Governor, Deputy Governor and Assistant Deputy Governor shall be appointed for a term of seven years during good behaviour.” I do not know if you could define it, but subsection 6 (b) says: “They are eligible for re-appointment on the expiry of their terms of office”, and there is no reference to good behaviour at all.

The CHAIRMAN: It would be assumed after seven years of serving with good behaviour that it would become a way of life with them. I thought you were going to object to the part which says they cannot share in the profits.

Mr. FLEMING: Mr. Chairman, there is a question which arises out of this provision as to remuneration. The salaries of the governor and deputy governor are to be determined subject to the approval of the Governor in Council. It has never been the practice of the present government in the past to disclose to the public, nor even to parliament, the salary of the governor and deputy governor, and I feel very strongly that parliament is entitled to know what salaries are paid to the two leading executive officers of the Bank of Canada. I would like to see some provision made here that would open that proper knowledge to the parliament of Canada.

Mr. CRESTOHL: Would that not be contained in the estimates?

Mr. FLEMING: No.

The CHAIRMAN: Not in detail.

Mr. BENIDICKSON: That has been true of a certain number of appointments. There are some others where the Crown company has not had the final appointment and where an order in council is involved and particularly in the case of the Bank of Canada orders in Council in connection with their appointment have been tabled in parliament and I recall the same thing in connection with Central Mortgage and Housing.

Mr. FLEMING: You mean the order in council fixing the salary on the reappointment?

The CHAIRMAN: I do not think so.

Mr. FLEMING: I wonder if Mr. Benidickson is quite right about that, Mr. Chairman, because there was a question about the salaries of both the Governor of the Bank of Canada and the president of Central Mortgage and Housing raised in the House I think in the session of 1952 and the government declined to answer the question.

The CHAIRMAN: I am informed it was tabled.

Mr. FLEMING: On the occasion of the reappointment?

Mr. BENIDICKSON: Yes.

Mr. FLEMING: That is the order in council embracing the reappointment and the salary?

The CHAIRMAN: Yes, that is what I am told.

Mr. FLEMING: Suppose there is a change in the salary at any time?

Mr. BENIDICKSON: It would have to be by order in council and it would be tabled.

Mr. FLEMING: If Mr. Benidickson is speaking for the government and says it will be tabled I will not question that.

Mr. BENIDICKSON: I am saying it has been tabled. The last appointment of the governor and deputy governor have been tabled and therefore it would apply to changes, I have no doubt.

Mr. FLEMING: If that is an undertaking, Mr. Chairman, I will say no more. Mr. Benidickson is undertaking on behalf of the government:

The CHAIRMAN: I have not developed the habit of undertaking on behalf of the government. Mr. Benidickson is better at that than I am.

Mr. BENIDICKSON: Mr. Fleming knows my limitations in that respect but it has been done on behalf of the Bank of Canada.

The CHAIRMAN: On page 2 there is another amendment as follows:

Insert the following after line 42:

"7. (1) The Board may appoint one or more Deputy Governors who shall perform such duties as are assigned to them by the Board.

(2) A Deputy Governor appointed under this section is not a member of the Board."

Then we go—

Mr. FLEMING: Just a moment on section 7. What is the reason for the new amendment?

The CHAIRMAN: You remember when the minister was before the committee he explained to you—he made a statement but you may not have been here—

Mr. FLEMING: Yes, I was here.

The CHAIRMAN: He asked that these changes be made. The purpose is merely one of title and they are administrative changes. What he said was that this was to enable the board to effect an improvement in the organization and the administration of the bank which they feel is desirable and also that it would be helpful in relation to the bank and banking institutions in other countries when they meet their opposite members in other countries.

Mr. FLEMING: More people bearing the title of deputy governor?

The CHAIRMAN: Yes, that seems to give them a status.

Mr. FLEMING: And salary?

The CHAIRMAN: That remains the same; he said that.

Mr. MACDONNELL: You are striking out lines 8, 9 and 10 on page 3?

The CHAIRMAN: Yes.

Mr. MACDONNELL: You are putting in no words to take the place of subsection 2 which says:

"The deputy governor and the assistant deputy governor shall perform such duties as are assigned to them by the board."

Are they the words to take the place of those?

The CHAIRMAN: That is the general idea, Mr. Macdonnell. That is what they say—that will do it.

Mr. MACDONNELL: There are lots of words—but I do not know if there are any words that actually take the place of those. If they were needed before I do not see that you have anything in their place.

The CHAIRMAN: The assistant deputy governor's position is done away with and the deputy governor position and duties is in a previous indicated amendment on your typewritten page in section 7-1. One page 3, section 9 the changes are underlined and speak for themselves.

Subsection 9 carried.

Clause 3, no change in substance.

Carried.

Clause 4, no change in substance.

Carried.

Mr. QUELCH: On clause 4, can we be told what remuneration the directors are allowed for attending meetings? The amount is raised from \$20,000 to \$30,000 under the new amendment.

Mr. BENIDICKSON: Well, the members will recognize that remuneration of all types, of course, has risen very heavily since the last revision of this Act. I believe that the Act provides for one additional director and in order to have attendances for people who come from long distances, some special amount for their travelling time has been awarded to those from the far distance places and it is felt that this provides a little more leeway which is more consistent with present conditions in the business world.

Mr. QUELCH: Are we to understand they are only allowed expenses? I thought maybe it was a standard payment.

Mr. BENIDICKSON: This is the bylaw of the Bank Act which has been published.

Mr. HUNTER: This is for fees, Mr. Benidickson?

Mr. QUELCH: In addition to expenses.

Mr. BENIDICKSON: These are fees.

The CHAIRMAN: Clause 4 carried?

Mr. FLEMING: Could we have information as to the rate at which the directors are remunerated?

The CHAIRMAN: I think it is \$50 a meeting.

Mr. FRASER (*Peterborough*): How many meetings do they have a year?

Mr. QUELCH: What is the document you have there, Mr. Chairman?

The CHAIRMAN: These are the bylaws. This is one of the clauses in the bylaw:

6. The fee to be paid to a director shall be \$150 for attendance at board meetings and the fee to be paid the director who is a member of the executive committee shall be \$50 for attendance at meetings of the committee, plus, in each case, \$50 for each day in excess of one day which a director is absent from his place of residence in order to attend a meeting.

Mr. BENIDICKSON: That includes the going and coming, except the excess time involved for people coming from great distances.

Mr. FLEMING: Could you clarify that, Mr. Chairman? Do I understand that the fee payable to a director who is not a public official is \$150 per meeting, and that must include also time he spends in travelling to and from Ottawa?

The CHAIRMAN: That is correct. That is what that means.

Mr. FLEMING: May I ask if directors' fees are paid to those members of the board of directors who are also public officials, such as the Deputy Minister of Finance?

The CHAIRMAN: No.

Mr. QUELCH: What was the number of meetings in 1953?

Mr. BENIDICKSON: Five meetings.

The CHAIRMAN: Clause 4, carried.

Clause 5. Do you notice the changes outlined? There is nothing substantial in the section.

Clause 5, carried.

Clause 6. There are no great changes in clause 6.

Carried.

Clause 7. There is nothing of substance there.

Mr. MACDONNELL: I am not quite sure.

Mr. QUELCH: Can you let that stand? Subsection (o) anyway.

The CHAIRMAN: Stand the clause?

Stands.

Clause 8, on page 8. There do not seem to be any changes.

Carried.

Clause 9. There is nothing of substance there.

Carried.

Clause 10, on page 9.

Mr. QUELCH: Stand?

The CHAIRMAN: Clause 10 stands.

Clause 11, on page 10.

Carried.

Clause 12, on page 10.

Carried.

Clause 13, on page 11.

Carried.

Clause 14, on page 11.

14. (1) Subsection (2) of section 26 of the said Act, as re-numbered by this Act, is repealed and subsection (3) thereof is re-numbered as subsection (2).

(2) Subsection (4), (5) and (6) of the said section 26 are repealed and the following substituted therefor:

(3) The Bank shall on or before the 7th day of each month make up and transmit to the Minister in the form of Schedule B a statement of its assets and liabilities on the last business day of the preceding month, and in addition shall provide in the form of Schedule C information regarding its investments in securities issued or guaranteed by Canada.

(4) Every return required under subsection (3) shall be accompanied by declarations, which shall be a part of the return, and the declarations, which shall be in the form set forth in Schedules B and C, shall be signed by the Chief Accountant or by the Acting Chief Accountant, and by the Governor or the Deputy Governor or the Assistant Deputy Governor.

(5) The Governor in Council may from time to time as he deems necessary amend the form of Schedules B and C.

(6) A copy of each statement required under subsections (1) and (3) shall be published in the next succeeding issue of the *Canada Gazette*.

On clause 14 there is an amendment in lines 29 to 35, substituting therefor the following:

(4) Every return required under subsections (1) and (3) shall be accompanied by declarations, which shall be a part of the return, and the declarations, which shall be in the form set forth in Schedule B, shall be signed by the Chief Accountant or by the Acting Chief Accountant, and by the Governor or a Deputy Governor.

That is in line with the amendment about the deputy governor. Clause 14.

Mr. FLEMING: Are we to understand that you are dropping from the bill what was to have been Schedule C?

The CHAIRMAN: No, that stands. Schedules B and C remain. It has reference only to the declaration.

Mr. FLEMING: Yes, but, Mr. Chairman, subclause (4), comprising lines 29 to 35, or clause 14 of the bill proposed the declaration in Schedules B and C be completed. Now you are proposing to strike that out and substitute a provision that the form set forth in Schedule B should be completed.

The CHAIRMAN: Look at clause 19 for a moment. You will find clause 19 of the bill on page 12.

Mr. FLEMING: You are going to renumber what was B?

The CHAIRMAN: That is right.

Mr. FLEMING: It was to have been replaced by B. You will call the new C Schedule B?

The CHAIRMAN: That is what it will amount to. Clause 14.

Carried.

Section 15 deals with the renumbering, at the bottom of page 11 and the top of page 12.

Carried.

You have clause 16 in front of you on the second page of the amendments, and it reads as follows:

16. (1) Section 32 of the said Act is repealed and the following substituted therefor:

28. Every person who holds office or continues to hold office as a Governor, Deputy Governor or director of the Bank,...

Mr. BENIDICKSON: That simply takes out the words "Assistant Deputy Governor".

The CHAIRMAN: Clause 17, carried.

Clause 18.

Mr. FRASER (*Peterborough*): Wait, on clause 17—

Mr. BENIDICKSON: Old organization expenses no longer required.

The CHAIRMAN: Clause 18.

Carried.

Clause 19, the Schedule.

Carried.

Clause 20.

20. This Act shall come into force on a day to be fixed by proclamation of the Governor in Council.

Mr. FLEMING: I have a question on clause 20. Is Mr. Benidickson in a position to give any indication of the proposed date of proclamation?

Mr. BENIDICKSON: No.

Mr. FLEMING: Or the considerations that will bear on the selection of a date?

Mr. BENIDICKSON: It, of course, dovetails with the Bank Act and the Quebec Bank Act and, depending on the passage of them all, I see no reason why there should not be early proclamation of all the banking Acts.

The CHAIRMAN: Clause 20 carried.

The CHAIRMAN: Someone asked that clause 7 stand. What particular subsection?

Mr. QUELCH: On page 7, paragraph (o), on the 6th line, the words "not more than twelve". I move that clause 7, relating to section 18, subsection (1), paragraph (o) of the existing Act, be amended by striking out the words "and not more than twelve" where they occur therein and substituting therefor the words "and not more than such other percentage as may be fixed by the Bank of Canada".

The CHAIRMAN: Turn to page 7, gentlemen. Subsection (1), paragraph (o) reads in part as follows:

alter the percentage of the deposit liabilities of chartered banks payable in Canadian currency that chartered banks are required by the Bank Act to maintain as a minimum average cash reserve during any month, but so that the percentage is not less than eight and not more than twelve;

The amendment is to strike out the words "and not more than twelve". Then read on:

the Bank shall, not less than one month before the month in which any such alteration becomes effective, publish a notice of the alteration in the *Canada Gazette*, and the Bank shall not in any month increase the percentage by more than one;

Where does it come in?

Mr. HUNTER: In line 10, where you have stricken out "not more than twelve".

The CHAIRMAN: Yes, that is right, "not more than twelve". "not more than such other percentage as may be fixed by the Bank of Canada".

Mr. QUELCH: Using similar words to the words in the Bank Act.

The CHAIRMAN: "not more than twelve", and "not more than such other percentage as may be fixed by the Bank of Canada Act." What is the effect of that?

Mr. QUELCH: It will be recalled that when Mr. Towers was with us he agreed that there are times when it is desirable for the government to finance by credit expansion; for instance, in times of depression. That can be found on page 836. Now, we have always urged that during a depression, when there is a lack of effective demand, it may be desirable for the government to finance part of their expenditures by credit expansion, and the amount of money obtained in that way should be definitely limited. The amount of money required will be the amount needed to maintain an effective demand against the supply of consumer goods coming on the market. The question then is whether or not that credit expansion should be carried out through the chartered banks, that is by obtaining money from the chartered banks, or whether it should be secured by obtaining money from the Bank of Canada. In either case it would be credit expansion. In the past it has been argued that for a government to obtain money from the Bank of Canada would be more inflationary than if the government obtained money from the chartered banks. The argument that used to be used was that when money is obtained

from the Bank of Canada it will increase the amount of legal tender in circulation and that it will eventually increase the cash reserves of chartered banks, thereby enabling them to expand their loans on a ratio of ten to one. Therefore, it is claimed that it would be more inflationary to obtain money from the Bank of Canada than it would be to obtain it from the chartered banks. On the other hand, by instituting the variable cash reserve requirement formula under which you could increase the cash reserve requirements of the chartered banks, you could overcome that difficulty by increasing the amount of cash reserve requirements of chartered banks to whatever extent is necessary to prevent them from utilizing the money issued by the Bank of Canada as a basis for an expansion of credit. Mr. Towers himself does not argue that borrowing money from the Bank of Canada is more inflationary as long as you raise the cash reserve requirements of the chartered banks. Another argument has been that it would be unfair to the chartered banks, and Mr. Towers referred to it as a forced loan on the ground that money issued in that way would have to be serviced by the chartered banks without them receiving any remuneration. That is to say, money issued that way would eventually be deposited in the chartered banks and if you increased their cash reserve requirements at the same time, then of course they would not be receiving any remuneration for the money issued that way and deposited with them. That is true. But, on the other hand, when you take the bank statements we find that the banks are making very substantial profits and all we are suggesting is that this action would only be taken when it was necessary to expand the amount of money in circulation. Therefore, if action of that kind was limited to that purpose it would in other words, be helping to maintain a high level of production, employment and income which in itself would be an advantage to the chartered banks. Chartered banks should expect to make a higher rate of profit in times when the economy is prosperous than in times of depression. It would be a guarantee to the chartered banks, in part at least, against depression. You might say they would consider that that service was a premium paid by the chartered banks as an assurance against depression. However, Mr. Towers, finally shifted his ground in opposing such action and gave another reason. The two arguments I have given so far are those arguments which have invariably been used against such a proposition in the past, but on page 854 at the bottom of the page Mr. Towers changed his stand and I quote my question and his answer: —“the main fiscal objection to the proposal is contained at the bottom of the page where you refer to the fact that there is a problem involved in servicing the new deposits and so on, and that under such circumstances—that is at the bottom of page 838—that is your main objection in so far as the actual transaction is concerned, namely that you are asking the chartered banks to service deposits for which they get no payment.—A. No. My main objection would be following a course of action which if conducted on a large scale would be inflationary and deciding on that course of action for reasons which are considered to be irrelevant, that is, reasons which are mainly related to interest saving.”

Now, he is arguing that if such action were carried out on a large scale it might be inflationary, where as on a small scale it would not be, but earlier he gave the example of the bottle of coke. That is that just because a case of coke might be bad for one it was no reason to refuse to drink one bottle. That is not a real argument, because in a modified way it might be satisfactory, but on an expanded rate it would not be. You could give the same example in many fields. In the matter of irrigation, if you put on a reasonable amount of water you will help the crop, but if you put on too much water you will flood the crops. In the same way, a small amount of monetary expansion might be a good thing and the larger amount would be undesirable, and because too large an amount is undesirable that is no reason why you should

not have a small amount. If it is not desirable to have monetary expansion through the Bank of Canada because a large degree of expansion would be undesirable, then exactly the same argument holds water in regard to the chartered banks. It would not be desirable to have monetary expansion by chartered banks on a small scale because it would be undesirable on a large scale. It cannot be charged that borrowing from the Bank of Canada would be more inflationary than borrowing from the chartered banks so long as you use the cash reserve requirements to control the operations of the chartered banks. It can be argued that the chartered banks would have to service the deposits arising from the money borrowed from the Bank of Canada without receiving remuneration, but, on the other hand, the chartered banks today are making very substantial profits. They have increased their profits substantially. They have also increased their reserves. This could very well be looked upon as a form of insurance against a depression because so long as that action is taken at a time when we are in a depressed state when it is desirable that we should expand personal spending, then there can be no argument that it would be used without any limit. In that way you would help expand the earnings of the chartered banks and that in itself would be a form of remuneration, for servicing those increased deposits. With the amendment I have mentioned, it would mean that if the government decided, we will say, to borrow \$300 million from the Bank of Canada for the purpose perhaps of financing low cost housing programs through the municipalities then when that money became deposited with the chartered banks their cash reserves would be increased. We would propose then that the cash reserves requirements for the chartered banks at that time be raised to the point where they would not be able to utilize the increase in their cash reserves arising from this transaction for a further expansion of credit and in that way there would be no danger of inflation from such a transaction.

The CHAIRMAN: You have heard the amendment by Mr. Quelch to section 18, subsection (1), paragraph (o), clause 7 of Bill 297, and Act to amend the Bank of Canada Act by striking out the words "and not more than 12" where they occur therein and substituting therefore the words "and not more than such other percentage as may be fixed by the Bank of Canada".

Mr. BENIDICKSON: I think probably we have had as much evidence on the principle of this change during the sittings of this committee as we have had on any other point. We had the Governor of the Bank of Canada here and what Mr. Quelch quotes, the Governor as saying, and he feels that the provisions of this statute are adequate. We have had the minister and he has said the same thing. I certainly would not expect that such a change would be one acceptable to the minister.

Mr. TUCKER: Since Mr. Towers gave his evidence we have had the evidence of the bankers and although they did not admit in so many words that they had raised the payments they were making to their depositors on deposits from $1\frac{1}{2}$ to 2 per cent because they were making such profits that they felt that they should pay some of it to their depositors. Now then, as a result of the policy for the past 18 years of the Bank of Canada in expanding the cash reserves and the proposed further expansion in order to finance housing, it looks to me as if the banks are going to have a further increase in their profits. Now, I think this is a feature of the matter which should be given some consideration. We know that the cash reserves in the United States are about 16 per cent. They are about 50 per cent higher than they are in Canada. If, as a result of the policy of the government and action of its Bank of Canada the profits of the banks are going to still further increase, then we are going to have perhaps a further increase in the interest rate to the depositors which is not desirable as it will ultimate have the effect of

raising the cost of financing industry and agriculture and the cost of financing the government. There is I believe something to be said for the idea that if as a result of necessary expansion in your credit to finance such a thing as housing, you cause the profits of the banks to rise quite a bit more than otherwise would be the case whether, it is not quite proper to offset those profits by raising your cash reserve requirements. This is a good way to do it for the government then gets the benefit through the extra profits through the Bank of Canada. In other words, if the cash reserves requirements are raised, say from 10 per cent to 15 per cent, presumably the profits of the Bank of Canada would rise to about \$66 million; that increase of \$22 million would be that much less that the banks would be making. I am not saying that that would be the proper amount. It seems to me that the amendment gives the Bank of Canada and the government a very direct control over the profits of the banks, which I think they should have; and because of the fact that we are going to expect the banks to go into this new field of housing I do not see any reason why we should not give the Bank of Canada that power to actually continue to have control of the situation. As it is today the only control in this respect that they have exercised over the situation is the Bank of Canada has provided the money to the banks to enable them to expand their credit and the result is rapidly rising profits, and the Banks then decided that they would pay some of it out in increased interest rates to their depositors. That necessarily increases the cost of doing business in this country. It is a decision of the banks based on their own rising profits. They did not consult the government. It is contrary to the easy money policy of this government. It was as a result of the easy money policy they reduced interest rates to the depositors from 3 to $1\frac{1}{2}$ per cent over 15 years ago. No they have raised it to 2 per cent. Right away the cost to the Banks of providing credit to farmers and to help finance anything the state wants financed is increased substantially. I think we should put ourselves in the position in respect of the banks, where as everybody seems to think they are making too much in the way of profits, we have power to drain off some of them by an increase in the reserve requirements. I do not want to go contrary to considered opinion of the government, but I do suggest that this is something that should be given further consideration in the light of subsequent evidence of the banks—That evidence of the banks has been given since Mr. Towers gave his evidence. I do not see any reason why we should tie the hands of the Bank of Canada on a thing like this if we have confidence in the Bank of Canada. That is the way I look at it, and I simply must say what I honestly think about it. I think that consideration should be given to the idea of giving the Bank of Canada more control over the situation than they are going to have under this amendment. I refer to the proposed change in the Bill. By it we are taking away some powers from the Bank of Canada which they have today and I do not think we should do so. The Bank of Canada has done a good job up to now and I do not see why we should start whittling down their powers.

The CHAIRMAN: Mr. Macdonnell.

MR. MACDONNELL: I assume that this amendment is an amendment which has the approval of the Bank of Canada. I do not think that this amendment should be discussed from the point of view of the earnings of the banks. This amendment has to do with the whole soundness of our credit position. I was regretful when this amendment with the upper and lower limits was announced because it seems to me that it might be increasing the rigidity of the situation. At the present time the working figure is about ten per cent (10%) although the actual legal requirement under the Bank Act is five per cent (5%). But as the authorities have worked this amendment out and are putting it forward as a matter of importance in the regulation of the credit

of a country, I feel at any rate that before I would be prepared to vote against it I would certainly want to have a further opportunity of discussion on this amendment of Mr. Quelch and to have the opinions of the responsible authorities, not merely given in a general discussion in committee from which we may rightly or wrongly deduce their views, although I think that if we deduce their views correctly we would find that they are against it. So I say that here is an amendment which has been advertised to the public and made a matter of public knowledge and it now comes in supported by the authorities of the Finance Department and by the Bank of Canada, and I certainly would not vote against it at the present time.

The CHAIRMAN: Mr. Cameron.

Mr. CAMERON: I must confess that I cannot understand why there would be objection to this amendment because it does seem to provide admirably.

Mr. CRESTOHL: Which amendment are you referring to, Mr. Cameron?

Mr. CAMERON: I am speaking of the amendment moved by Mr. Quelch striking out the twelve per cent (12%); and it does seem to me to provide admirably for a much more flexible control of our money supply. Therefore I find it hard to believe that those who devised the eight to twelve formula really believe that they could tell, within a limit of eight to twelve per cent, precisely what would be the best level for cash reserves at any particular time. I am sure that Mr. Towers would not for a moment suggest that he could do that with absolute certainty, or say that at any time it was not necessary to make it thirteen or fourteen. Therefore I can see no reason for tying the hands of the Bank of Canada in that respect and I am prepared to support the amendment.

The CHAIRMAN: Mr. Philpott.

Mr. PHILPOTT: Mr. Chairman, several times during the course of the investigation I asked the witnesses questions concerning this direct credit used in wartime. I personally am in favour of the way we have used this direct credit in wartime and it seems to me that the way it was used in the last war was a practical and commonsense way, and it seems to me that Mr. Quelch's amendment just muddles up the whole picture. We already have power to use the direct credit of Canada without going into debt at all, and the whole question to me boils down to this: whether the method we used was fair or not; and in the cross examination of Mr. Atkinson I think it came out very clearly that the rate that had been fixed by agreement was fixed at a fair rate, something like three quarters of one per cent or something like that. Therefore I for one do not believe that Mr. Quelch's amendment would accomplish the national purpose any better than it is being accomplished right now, but would require a lot of extra complicated machinery to do it.

The CHAIRMAN: Mr. Quelch.

Mr. QUELCH: Mr. Philpott referred to my amendment and said that it would muddy up the situation. But if the situation has been muddled up, it has been done by the amendment here; I mean this amendment which is before us—not my own—that makes the change to a variable cash requirement. My amendment is only to strike out the twelve per cent limit, and leave it to the discretion of the Bank of Canada.

Mr. TUCKER: Mr. Quelch's amendment proposes to restore the situation to what it was when we handled the war problem. That is all.

The CHAIRMAN: Very well, gentlemen. You have heard the discussion. All those in favour of the amendment will please show hands. All those against the amendment? I declare the amendment to be lost.

Clause 7? Carried.

Top of page 9, clause 10. Who asked for that to stand?

Mr. MACDONNELL: I think I did, and Mr. Quelch did too.

The CHAIRMAN: Mr. Quelch, did you raise a question on clause 10?

Mr. QUELCH: Yes, but not with the idea of moving an amendment. However in view of the fact that this clause, or the operation of this section has been suspended since 1940, could not the section be deleted entirely, and then if the government anticipated going on a gold basis at a later time they might reestablish it, otherwise why not delete this section entirely, and if it was considered necessary to go back to the gold basis at some future date, it could be reenacted.

The CHAIRMAN: It is there for the same purpose that the War Measures Act is on the statute books.

Mr. Low: It might be reenacted by order in council but we feel that that is not the right way to do it, to have such a matter of far-reaching importance done without reference to parliament. I think that would be a negation of the democratic principle.

Mr. MACDONNELL: It is no longer nullified by order in council but by the Currency Mint and Exchange Act.

The CHAIRMAN: That is right.

Mr. MACDONNELL: And it seems to me, apart from any other reason, that we should not leave it as it is because it might be misunderstood; it is a misstatement of facts. Supposing somebody took this up in Europe and read it. I think as a bit of draughtmanship it should be altered. I would like to have it stand over, provided you consent, until a later time when we are going through the Bank Act, and it is for this reason that I raise the question because as matters stand at the present time I believe there is no limit on the power to create money and I think that is a great pity. It is easy to say that, but it is not at all so easy to say what the method would be to restrict it.

The CHAIRMAN: You ask that clause 10 stand. That is all right. Then it will stand until another day. I had it in mind that we might report this bill if possible today, in order to send it to the Senate.

Mr. WEAVER: Then why not?

The CHAIRMAN: That is what I had hoped for but you say this is a matter of substance.

Mr. MACDONNELL: I believe it is.

The CHAIRMAN: If you say it is, then in the light of that you would like it to stand?

Mr. MACDONNELL: Yes.

The CHAIRMAN: Very well, it stands. If you have got your bill in front of you we might as well start in with the Bank Act. The understanding is that the Bank of Canada Act is to pass in all respects except for clause 10.

Gentlemen, we are now dealing with bill No. 338, and if there is any clause here which troubles you just say "stand" and we will stand it. Gentlemen, you have the bill in front of you.

You will recall that during a recent meeting the Inspector General of Banks laid on the table certain proposed amendments recommended by Justice. These amendments were printed as part of our proceedings and are to be found on page 1192 of our proceedings. I think it will be more convenient if we place all the amendments before you on motion of Mr. Benidickson and then when we come to a Clause that is to be amended I will read it in detail.

Mr. BENIDICKSON: Mr. Chairman, I propose the following amendments.

The CHAIRMAN: Just one minute. Clause 1? Carried.

Clause 2—

The CHAIRMAN: Page 1, clause 2, line 14: delete the word "limiting" and substitute the word "restricting." Does the amendment carry? Carried.

The CHAIRMAN: Page 1, clause 2, delete lines 25 to 28 inclusive. That was caused by a printer's error.

The CHAIRMAN: Does the amendment carry? Carried.

The CHAIRMAN: Page 2, clause 2, line 40, delete the word "or" and substitute the word "and". Does the amendment carry? Carried.

The CHAIRMAN: Page 3, clause 2, line 4, delete the word "limiting" and substitute the word "restricting". Does the amendment carry? Carried.

The CHAIRMAN: Page 10, clause 19, delete lines, 25 and 26 and substitute the following words therefor:—"person, or to any shareholders: and". Does the amendment carry? Carried.

Mr. MACDONNELL: At the bottom of page 2, it says "horses and other equines" what are the other equines?

Mr. ELDERKIN: Mules and jackasses.

Mr. MACDONNELL: You can stop right there.

The CHAIRMAN: It is not applicable.

Clause 3; there are no changes there.

Mr. ELDERKIN: No.

The CHAIRMAN: Does clause 3 carry? Carried.

Now clause 4.

Mr. ELDERKIN: There is a small change.

The CHAIRMAN: It refers to "amalgamated", it is a new definition but there is not much in it.

Mr. BENDICKSON: I move that clause 4 as amended carry.

The CHAIRMAN: Shall clause 4 as amended carry? Carried.

Shall clause 5 carry? Carried.

There is no change in clause 6.

Mr. FRASER (*Peterborough*): What does that mean? Why is that change put in there.

The CHAIRMAN: What change? Clause 6 is a new one.

Mr. ELDERKIN: It is designed to provide for the possibility that parliament might rise before or during the month of June, 1964 without considering any extension of authority to the banks to continue business. This clause would carry them over to the next session of parliament, if that should happen.

Mr. FRASER (*Peterborough*): It carries them over until July 1?

Mr. ELDERKIN: No, until the next sitting of parliament, the sixtieth day of the next sitting.

Mr. NOSEWORTHY: Is there any provision in the present Act whereby, if this had been an election year and parliament had adjourned earlier in the year, they would have had any authority to carry on business?

Mr. ELDERKIN: The charters would all have expired on the first of July.

Mr. NOSEWORTHY: You should have had the election this year instead of last year.

The CHAIRMAN: We were satisfied with the last one.

Mr. CRESTOHL: It was good enough the last time.

The CHAIRMAN: Clause 6?

Carried.

Clause 7?

Carried.

Clause 8?

Carried.

Clause 9, no change.

Carried.

Clause 10—there is a change there. Strictly for your own information, gentlemen, the minimum capital required by a bank is increased to a million dollars. Formerly it was only \$500,000.

Mr. HELLYER: Should we make it more difficult to go into the banking business?

The CHAIRMAN: Clause 10?

Carried.

Clause 11 carried with a minor change.

Clause 12, no change. Yes, there is, relating to the additional liabilities of the banks' shares has been deleted.

Mr. MACDONNELL: Under section 11 where the authorized capital stock of the bank is not less than \$1 million, it does not say that it has to be fully paid up. It is not there, and when you come to clause 11, and in subclause (2) you say:

(2) A person is not eligible to be a provisional director unless he is a subscriber of stock of the bank for and on his own behalf, so as to become the absolute and sole owner in his individual right of such stock, and not as a trustee or in the right of another, on which subscription not less than

(a) three thousand dollars have been paid up, when the paid-up capital stock of the bank is one million dollars or less,

The CHAIRMAN: You are referring to clause 11 subclause (a).

Mr. MACDONNELL: Yes. Supposing you can have a bank commencing business with \$1 million which is not all paid up?

Mr. ELDERKIN: May I refer you to clause 13. They can only start business after they have paid up \$500,000.

Mr. MACDONNELL: It is a silly technical point, but my point is could you have \$500,000 paid up but no paid up capital stock? In other words, half might be paid on every share? Is that not technically possible?

Mr. ELDERKIN: But the qualification is that the directors have to pay up a minimum amount.

Mr. MACDONNELL: But my point is that when the paid up capital stock of the bank is \$1 million it seems to me you cannot operate unless you have a \$1 million paid up.

Mr. ELDERKIN: Or less.

Mr. MACDONNELL: It does not say that.

Mr. ELDERKIN: Yes, in the last two words of the paragraph.

Mr. MACDONNELL: Oh yes, I see.

The CHAIRMAN: Clause 11?

Carried.

Clause 12?

Carried.

Clause 13?

Carried. There is nothing new there—clause 13 speaks for itself. Clause 13, carried.

Clause 14?

Carried.

Clause 15?

Carried.

Clause 16?

Carried.

Clause 17, there are no changes.

Clause 18 on page 9, carried.

Page 10, clause 19—lines 25 and 26—you delete those lines and substitute instead the words: "person, or to any shareholders; and."

Mr. CRESTOHL: What line is that?

The CHAIRMAN: Delete lines 25 and 26 and substitute the following words therefore: "person, or to any shareholders; and." It will now read as follows:

(h) the amount of discounts or loans that may be made to directors, either jointly or severally, or to any one person, or to any shareholder and

And then in line 43 delete the word "section" and substitute the word "Act". It will now read:

Until it is otherwise prescribed by by-law under this Act.

Mr. MACDONNELL: Going back to line 25, am I correct in assuming that this clause should now read: "or to any one person, or to any shareholder." In other words, firms and corporations are left out?

Mr. ELDERKIN: That is covered in the Interpretation Act.

The CHAIRMAN: Clause 19?

Carried.

Clause 20?

Carried.

Clause 21 will have to stand. I have an amendment which I think is on the record. Is it on the record?

21. (1) A person is not eligible to be a director unless he holds stock of the bank as the absolute and sole owner thereof in his individual right and not as trustee or in the right of another, on which not less than

(a) three thousand dollars, or such greater amount as the by-laws require, have been paid up, when the paid-up capital stock of the bank is one million dollars or less,

(b) four thousand dollars, or such greater amount as the by-laws require, have been paid up, when the paid-up capital stock of the bank is over one million dollars and does not exceed three million dollars, or

(c) five thousand dollars, or such greater amount as the by-laws require, have been paid up, when the paid-up capital stock of the bank exceeds three million dollars,

except that in the case of not more than one-quarter of the number of directors the minimum requirements of subscriptions to stock in paragraphs (a), (b) and (c) shall be reduced to fifteen hundred dollars, two thousand dollars, and twenty-five hundred dollars respectively.

(2) A majority of the directors shall be subjects of Her Majesty ordinarily resident in Canada.

(3) The election or appointment of any person as a director is void if the composition of the board of directors would as a result thereof fail to comply with subsection (2).

The CLERK: Yes, as a notice of motion in the last printed Proceeding standing in the name of Mr. Macnaughton.

Mr. BENIDICKSON: It is in the minutes.

Mr. TUCKER: What is the amendment?

The CHAIRMAN: The amendment will read: "Clause 21 of Bill 338 is amended by adding thereto the following subclause (4): a person is not eligible to be elected or appointed a director after the first of July, 1959, if he has reached the age of 75 years.

Mr. FRASER (Peterborough): Why not make it 70?

The CHAIRMAN: Clause 21 stands.

Clause 22.

Carried.

Clause 23—there was an amendment in line 10.

23. (1) The shareholders may, at any special general meeting of the shareholders called for the purpose, remove any director.

(2) A director ceases to be a director if

(a) he ceases to fulfil the requirements of subsection (1) of section 21 with respect to holdings of stock, or

(b) he ceases to be a subject of Her Majesty ordinarily resident in Canada and the composition of the board of directors then ceases

After the word "and" insert the following words:

"as a result thereof." And the subclause will read: (2) a director ceases to be a director if (b) he ceases to be a subject of Her Majesty ordinarily resident in Canada and the composition of the board of directors ceases to comply with subsection 2 of section 21." The word "then" is deleted in line 11.

Carried.

The CHAIRMAN: Clause 24.

Mr. CRESTOHL: Under Clause 21, subclause (2) you spoke of the director being a subject of Her Majesty ordinarily resident in Canada. Would that mean a Canadian citizen or could it be a British subject resident in England?

The CHAIRMAN: No.

Mr. CRESTOHL: Resident in Canada, but a British subject—not necessarily a Canadian citizen?

Mr. ELDERKIN: Yes.

Mr. FRASER (Peterborough): That would cover the directors of Barclays' bank?

The CHAIRMAN: Yes.

Mr. FRASER (Peterborough): What about other foreign countries? They would have to have absolutely all Canadians?

Mr. ELDERKIN: A majority.

Mr. CRESTOHL: What is the position of the Dutch group that was recently incorporated?

Mr. ELDERKIN: A majority of the directors are British subjects.

Mr. CRESTOHL: A majority?

Mr. ELDERKIN: Yes.

Mr. FRASER (Peterborough): Resident in Canada?

Mr. ELDERKIN: Yes.

Mr. TUCKER: As I understand the way clause 23 is drawn, a person does not cease to be a director even if he ceases to be a person ordinarily resident in Canada as long as it does not alter the composition of the board—it must comply with subclause 2 of clause 21? In other words, he can remain a director although he is not a British subject ordinarily resident in Canada as long as it does not affect the position of the board?

The CHAIRMAN: That is right.

Clause 23, carried.

Clause 24, carried.

Clause 25, carried.

Clause 26, no change, carried.

Clause 27, carried.

Clause 28, carried.

Clause 29, carried.

Clause 30, on page 13, line 18.

30. (1) The directors shall administer the affairs of the bank and may make by-laws with respect to any matter except a by-law increasing the aggregate of the amounts, fixed by a shareholders' by-law, to be paid to the president, vice-president and directors as remuneration.

(2) Subject to subsection (3), where a by-law made under subsection (1) provides for a matter that the shareholders may provide for by by-laws, the by-law, to the extent that it so provides, ceases to have effect at the conclusion of the annual general meeting of the shareholders next ensuing after it is made unless it is confirmed by the shareholders.

(3) Where a special general meeting, called for the purpose of confirming a by-law made under subsection (1) or called for that and any other purpose, is held before the next following annual general meeting, the by-law ceases to be in force at the date of the special general meeting unless it is confirmed at that special general meeting, and subsection (2) does not apply to a by-law that is so confirmed.

(4) All by-laws of the bank lawfully made and in force with regard to any matter respecting which the directors may make by-laws under this section, remain in force until they are repealed or altered by other by-laws made under this Act.

After the word "and" insert the word "other".

Mr. MACDONNELL: What page?

The CHAIRMAN: Page 13. Clause 30, subclause (1): "The directors shall administer the affairs of the bank and may make by-laws with respect to any matter except a by-law increasing the aggregate of the amounts, fixed by a shareholders' by-law, to be paid to the president, vice-president and other directors as remuneration." That is the change—the word "other" is inserted after "and". Otherwise the clause remains the same.

Carried.

Mr. HELLYER: What was the change again?

The CHAIRMAN: After the word "and" insert the word "other". You had better get it straight, you will probably be one of the directors one of these days.

Mr. CRESTOHL: He will be one of the "others."

The CHAIRMAN: Clause 31, carried.

Clause 32, carried.

Clause 33, no change, carried.

Mr. MACDONNELL: Is the word "appointing officer" defined or is that in need of defining? It seems to me to be a new word. I refer to the last line on page 13.

Mr. ELDERKIN: It follows clause 31 in which it is provided that an officer of the bank may make appointments.

The CHAIRMAN: Clause 33, carried.

Clause 34, carried.

Clause 35, carried.

Clauses 36, 37, 38, 39 and 40 stand, gentlemen.

Mr. TUCKER: Why is that?

The CHAIRMAN: The minister has requested them to stand.

Mr. HUNTER: And clause 40 stands?

The CHAIRMAN: Yes.

Mr. TUCKER: Clause 40 stands?

The CHAIRMAN: Yes.

Clause 41, no change.

Reduction of Capital

41. (1) The paid-up capital stock of the bank may be reduced by by-law of the shareholders.

(2) No by-law under this section comes into operation or has force or effect until a certificate approving thereof has been issued by the Treasury Board.

(3) No certificate shall be issued by the Treasury Board under subsection (2) unless application therefor is made within three months from the time of the passing of the by-law, nor unless it appears to the satisfaction of the Treasury Board that

(a) the shareholders voting for the by-law represent a majority in value of all the shares then issued by the bank, and

(b) a copy of the by-law, together with notice of intention to apply to the Treasury Board for the certificate, has been published for at least four weeks in the *Canada Gazette*, and in one or more newspapers published in the place where the head office of the bank is situate.

(4) In addition to evidence of the passing of the by-law, and of the publication thereof in the manner provided in this section, statements showing

(a) the amount of stock issued,

(b) the number of shareholders represented at the meeting at which the by-law passed,

(c) the amount of stock held by each such shareholder,

(d) the number of shareholders who voted for the by-law,

(e) the amount of stock held by each of the shareholders who voted for the by-law,

(f) the assets and liabilities of the bank, and

(g) the reason and causes why the reduction is sought, shall be laid before the Treasury Board at the time of the application for the issue of a certificate approving the by-law.

(5) Nothing in this section shall be construed to prevent the Treasury Board from refusing to issue the certificate.

(6) The passing of the by-law, and any reduction of the capital stock of the bank thereunder, does not in any way diminish or interfere with the liability of the shareholders of the bank for unpaid subscriptions for shares at the time of the issue of the certificate approving the by-law.

(7) The paid-up capital stock shall not be reduced below the amount of five hundred thousand dollars.

Yes, there is. On page 16, clause 41, line 43, delete the words "in value." Then turn to page 17, clause 41, line 10 and delete the words "amount of stock" and substitute the words "number of shares," so the section will read: "the number of shares issued." On page 17, clause 41, line 11, delete the word "shareholders" and substitute the words "shares held by each shareholder." The clause will now read: "The number of shares held by each shareholder represented at the meeting at which the by-law was passed."

Mr. MACDONNELL: Mr. Chairman, referring to the second last line on page 16, are those the same as bank share?

Mr. ELDERKIN: Yes.

The CHAIRMAN: Clause 41, line 13, delete the words "the amount of stock held by each shareholder." Line 14, delete "(d) and substitute (e)"—that is a matter of renumbering. Delete lines 15 and 16 in clause 41. Line 15 reads: "The amount of stock held by each of the shareholders who voted for the by-law." The rest remains except for renumbering. The changes have all been noted. "f" becomes "d" and "g" becomes "e". Subject to the amendments, the clause carries.

Mr. McMILLAN: Why would you want to decrease the capital stock of the bank?

Mr. ELDERKIN: It has not happened, Mr. McMillan, in many years, but there were occasions in the early history of banking where a bank had lost part of its capital and where it applied to parliament to give it a decreased capital stock. I sincerely hope it will never be used again.

Mr. McMILLAN: But the authority is here?

Mr. ELDERKIN: The power is there if it ever does happen. It has been in the Act ever since Confederation.

Mr. CRESTOHL: It places a veto power in the hands of the board

Mr. ELDERKIN: There is a minimum to which it can be reduced; \$500,000.

The CHAIRMAN: Clause 42, carried.

Mr. FRASER (*Peterborough*): May I ask a question concerning clause 43? How many banks have directors who have not paid the full amount of their shares?

Mr. ELDERKIN: None today.

Mr. FRASER (*Peterborough*): This clause is just for emergencies?

The CHAIRMAN: Precaution is the word.

Mr. ELDERKIN: If a bank made a new capital issue there might be subscriptions by directors.

The CHAIRMAN: Clause 43, carried.

Clause 44, carried.

Clause 45, carried.

Clause 46, carried.

Clause 47, carried.

Transfer of shares.

48. (1) Unless otherwise provided by by-law, no transfer of the shares of the capital stock of the bank is valid unless

- (a) it was made and registered in the books kept for that purpose and the post office address and description of the transferee is entered in such records, and

(b) the person making the transfer has, if required by the bank, previously discharged all his debts or liabilities to the bank that exceed in amount the then market value of the remaining shares, if any, belonging to such person.

(2) No fraction of a share is transferable.

(3) The bank may open and maintain in any province in Canada in which it has resident shareholders and in which it has one or more branches, a share-registry office, to be designated by the directors, at which the shares of the shareholders resident within the province shall be registered and at which, and not elsewhere, except as provided in this Act, such shares may be validly transferred.

(4) Shares of persons who are not resident in Canada or in any province in which there is a branch of the bank may be registered and are transferable at the head office of the bank or elsewhere, as the directors may designate.

(5) Whenever there is a change in the ownership of shares, and the new shareholder resides in a province other than that in which the former shareholder resided, and whenever there is a change in the residence of a shareholder from one province to another, or whenever a shareholder residing outside of Canada becomes a resident of a province in Canada, the registration of the shares shall be changed to the registry of the province in which the shareholder has his residence, if there is a branch of the bank in that province and a share-registry has been opened in that province, and the shares of such shareholder are thereafter transferable at such registry and not elsewhere, except as provided in this Act.

(6) For the purposes of this section, a shareholder shall be deemed to be resident in the province of his recorded address as a shareholder.

(7) The directors may appoint such agents for the purposes of this section as they deem necessary.

Clause 48, at the top of page 19 there is a change in line 5. Delete the word "records" and substitute the word "books." The clause will now read: "unless otherwise provided by by-law no transfer of the shares of the capital stock of the bank is valid unless (a) it was made and registered in the books kept for that purpose and the post office address and description of the transferee is transferred in such books."

Mr. ELDERKIN: I just wish to point out there is quite an important change contained in the first few words of that section, which are new. Previously it was compulsory for a bank to have book stock. With the change provided in this section they may now have street stock if they wish to do so.

Mr. CRESTOHL: The word "records" could incorporate books while the word "books" does not necessarily incorporate the word "records" so I think the word "records" gives you more latitude than you achieve by restricting it to books.

Mr. ELDERKIN: It refers to books in line 3. There was a difference in the terms. In one place it referred to books and in the second place it referred to records and the drafting officer suggested that it should be made consistent and refer to books.

Mr. CRESTOHL: Why not change the word "books" in line 3 to "records?" It gives you a wider scope?

Mr. ELDERKIN: There can only be one type of share register book in the bank, and it was felt books was the better word rather than the broader phrase.

Mr. TUCKER: Was a reason given for the change on the question of the street stock? I do not recall it.

Mr. ELDERKIN: When there was additional liability attached to the stock it was necessary to control ownership to know where the stock was held and to prevent stock being transferred to escape additional liability in case a call was made. Since payment of the outstanding note circulation to the Bank of Canada there is no additional liability attached to bank stock and therefore it is considered that the banks should be able to choose their own way of transferring their shares. It is no longer considered to be a matter subject to statutory regulation.

Mr. TUCKER: Is the government not interested in who owns the stock?

Mr. ELDERKIN: The government can always find out who the registered owner of the stock is if it sees fit. There is no power in the Bank Act to prevent the transfer, anyway.

Mr. TUCKER: They would know about it formerly, but when this change is made people could be the actual owners without the government knowing about it?

Mr. ELDERKIN: No, Mr. Tucker, that could have been easily evaded in the past by having nominees.

Mr. TUCKER: That would be a deliberate evasion of the Act?

Mr. ELDERKIN: No, it would be perfectly legal to have nominees to hold the stock.

Mr. TUCKER: They could avoid the requirements about liability?

Mr. ELDERKIN: The bank did not have to accept the transfer.

Mr. TUCKER: I still do not understand why it should be provided that under this clause now, as I understand it, the banks' controlling interest could be actually transferred and held by someone for some time without anyone knowing about it, the governor, yourself, or anyone. Is that a desirable condition?

Mr. ELDERKIN: Well, the government, as far as I know, and certainly in my time, has never taken any step towards control of shareholdings of a bank, and the feeling expressed by the minister was that since it was no longer necessary to control the transfers, because the additional liability had been eliminated, this was a matter of internal management in which the Act should not interfere.

Mr. MICHENER: Does this permit the issuing of share warrants instead of certificates that are transferable on delivery to bearer?

Mr. ELDERKIN: Not share warrants, but share certificates which are transferable. That is, share certificates of which ownership may be transferred by endorsement.

Mr. FLEMING: That is quite a different matter from share warrants.

Mr. ELDERKIN: That is correct.

Mr. FLEMING: There is no provision here which permits a bank to issue share warrants?

Mr. ELDERKIN: No.

Mr. MILNER: And only shares fully paid could be dealt with?

Mr. ELDERKIN: Yes.

Mr. MICHENER: But the transfer is not effective under the proposed amendment until it is transferred as far as the bank is concerned?

Mr. ELDERKIN: But the change of ownership is effective if the bylaw so provides, Mr. Michener.

Mr. MICHENER: That is only between transfer and transferee and not with respect to the bank.

Mr. ELDERKIN: If the by-law so provides.

Mr. FLEMING: Mr. Chairman, I think there is one other point that might be mentioned in favour of the word "books" as against the word "records". The word "books" is used in the existing Act, and it is a well recognized name.

The CHAIRMAN: That is what Mr. Elderkin said.

Clause 48, carried.

49. A list of all transfers of shares registered each day in the books of the bank at the respective places where transfers are authorized, showing in each case the parties to such transfers and the number of shares transferred, shall be made up at the end of each day, and such lists shall be kept at the said respective places for the inspection of the shareholders.

There is an amendment to clause 49. The word "authorized" is deleted and is replaced with the words "made or recorded". The clause will now read: "A list of all transfers of shares registered each day in the books of the bank at the respective places where transfers are made or recorded."

Clause 49, carried.

Clause 50.

Mr. TUCKER: Of course the effect of clause 49 if the bank passes the necessary by-law under clause 48, clause 49 would not be of much use any more?

Mr. ELDERKIN: Would you repeat that?

Mr. TUCKER: Clause 49 would not be of much use any more if the bank passed the necessary by-law under clause 48?

Mr. HUNTER: Why not?

Mr. TUCKER: This list of transfers does have to be registered to be effective so the purpose of having the list of transfers available to the shareholders will be no longer of much effect.

Mr. ELDERKIN: That is the case in any company which issues what is known as "street stock." That is, stock negotiable by endorsement.

Mr. TUCKER: A bank differs from an ordinary company. It is doing work—in a way—which is carrying out a public trust. If the idea is to treat banks exactly as ordinary companies then there would be no reason, for example to have this decennial revision of the Bank Act which recognizes they are in a different position from a company.

The CHAIRMAN: Gentlemen, clause 49.

Mr. TUCKER: I was just pointing that out, Mr. Chairman.

The CHAIRMAN: That is a good point, I think.

Clause 50, carried.

Clause 51.

Sale of shares under execution.

51. (1) When any share of the capital stock has been sold under a writ of execution, the officer by whom the writ was executed shall, within thirty days after the sale, leave with the bank an attested copy of the writ, with the certificate of such officer endorsed thereon, certifying to whom the sale has been made.

(2) The president, a vice-president or the general manager of the bank shall execute the transfer to the purchaser of a share sold under a writ of execution, but not until after all debts and liabilities to the bank of the holder of the share, and all liens in favour of the bank existing thereon, have been discharged as provided by this Act.

(3) A transfer executed under subsection (2) is as valid and effectual in law as if it had been executed by the holder of the share.

Clause 51 has a change in line 29. Delete words "as provided by this Act."

Mr. HELLYER: Which subclause?

The CHAIRMAN: Subclause 2.

Mr. FLEMING: What is the reason?

Mr. ELDERKIN: Those words were considered to be unnecessary. The liens have to be discharged in a legal way and the draftsman considered the words were redundant.

Mr. FLEMING: Perhaps I am slow to accept the point about redundancy. If we proceed on that basis we would be taking chances in daily practice with drafting that we do not normally take.

Mr. MACDONNELL: Your clients would be, you mean.

Mr. ELDERKIN: Actually I think this is redundant in more ways than one. It says that all debts in favour of the bank must be discharged. That is a fact or it is not, as I see it.

The CHAIRMAN: I do not think that it is too important.

Clause 51.

Carried.

Clause 52 has no change.

Carried.

Clause 53.

Carried.

Clause 54.

Carried.

Clause 55.

Carried.

Clause 56.

Carried.

Clause 57.

Carried.

Clause 58.

58. (1) At every annual general meeting of the shareholders, the outgoing directors shall submit a statement (hereinafter called the "annual statement"), which shall present fairly the financial position of the bank for the financial year immediately preceding the meeting, and shall contain

- (a) a statement of assets and liabilities of the bank as at the end of the financial year showing the information in the form specified in Schedule N and such additional information and particulars as in the opinion of the directors are necessary to present fairly the financial position of the bank, and
- (b) a statement of the undivided profits of the bank as at the end of the financial year, which shall also show the balance available for distribution of profits earned in the financial year and shall indicate whether transfers have been made in the financial year in respect of contingency reserves and whether provision has been made out of those reserves for diminution in the value of investments and loans.

(2) The annual statement shall be signed

- (a) on behalf of the board of directors, by the president or a vice-president or two other directors, and
- (b) by the general manager or a person duly authorized to sign in the place of the general manager.

(3) Where the bank carries on any part of its operations in the name of a corporation controlled by the bank, there shall be annexed to the annual statement a statement of assets and liabilities of the corporation, which shall

- (a) present fairly the financial position of the corporation as at the end of its financial year ending within the financial year of the bank to which the annual statement relates, and
- (b) show the value at which the interest of the bank in the corporation is shown on the books of the bank as at the end of the said financial year of the corporation unless
- (c) the corporation carries on the business of banking outside of Canada,
- (d) the bank owns all the issued capital stock of the corporation except the qualifying shares of directors, and
- (e) in the annual statement the assets and liabilities of the corporation are consolidated with those of the bank and attention is drawn to the consolidation by way of footnote.

(4) The directors shall, within four weeks after the annual general meeting, mail to each shareholder at his recorded address a copy of the minutes of the meeting and a copy of the annual statement and any statements annexed thereto, and within the same time the directors shall mail a certified copy of the minutes and statements to the Minister.

(5) The Governor in Council may, in his discretion, amend Schedule N.

Clause 58, line 20, page 24.

Mr. MACDONNELL: You are going so fast that we are toiling behind you. Might I go back to 52?

The CHAIRMAN: Yes.

Mr. MACDONNELL: Page 20. "Where the interest in any share of the capital stock is transmitted by or in consequence of the marriage of a female shareholder." Could that be true in any other province than Quebec?

Mr. ELDERKIN: No, but we have to provide for that.

Mr. FLEMING: It is a matter of the marriage as effecting the change of the surname?

Mr. ELDERKIN: I know that it is due to the laws of the province of Quebec that it has been put in there. It has been in there for some time.

The CHAIRMAN: On page 24, line 20, delete the comma after the word "may" and the words "in his discretion". It should read: "The Governor in Council may amend schedule N." With that amendment shall clause 58 carry?

Carried.

Clause 59.

Carried.

Clause 60.

Carried.

Clause 61.

61. (1) The affairs of the bank shall be audited by two auditors appointed in accordance with this section, each of whom at the time of his appointment is an accountant who

- (a) is a member in good standing of an institute or association of accountants incorporated by or under the authority of the legislature of a province,
- (b) is ordinarily resident in Canada, and

(c) has practised his profession in Canada continuously during the six consecutive years immediately preceding his appointment.

(2) The shareholders shall, at each annual general meeting, appoint two persons having the qualifications specified in subsection (1), but not being members of the same firm, to be the auditors of the bank until the next ensuing annual general meeting, but if the same two persons or if members of the same two firms have been appointed for two consecutive years as auditors of the bank, one such person or a member of his firm shall not be appointed as auditor of the bank for the period of two years next following the term for which he was last appointed; and no person shall be so appointed if he or a member of his firm is a director, officer or employee of the bank.

(3) The Minister may at any time, in his discretion, revoke the appointment of an auditor by notice in writing signed by the Minister and sent by registered mail addressed to the auditor at his usual place of business and shall at the same time furnish a copy thereof to the bank.

(4) An auditor ceases to hold office

(a) on the day on which a notice is mailed to him under subsection (3), or

(b) if he or a member of his firm becomes a director, officer or employee of the bank.

(5) When a vacancy occurs in the office of auditor of a bank, the bank shall forthwith give notice thereof to the Minister, who shall appoint a person having the qualifications specified in subsection (1) to be an auditor of the bank until the next ensuing annual general meeting.

(6) The shareholders shall, at the time they appoint the auditors, fix their remuneration, and when a vacancy occurs in the office of auditor and is filled under this section, the remuneration so fixed shall be divided, in such manner as the directors determine, amongst the person originally appointed or his legal representative, the continuing auditor and the person appointed to fill the vacancy.

(7) The auditors of the bank have a right of access to the books, accounts, cash, securities, documents and vouchers of the bank and any security held by the bank, and are entitled to require such information and explanations as they deem necessary for the performance of their duties as auditors.

(8) The Minister may from time to time require that the auditors of the bank shall report to him upon the adequacy of the procedure adopted by the bank for the safety of its creditors and shareholders, and as to the sufficiency of their own procedure in auditing the affairs of the bank.

(9) The Minister may, in his discretion, enlarge or extend the scope of the audit or direct any other or particular examination to be made or procedure established in the particular case as, in his opinion, the public interest may require, and the bank shall, in respect thereof, pay to the auditor such remuneration, in addition to that fixed under subsection (6), as the Minister allows.

(10) It is the duty of the auditors to report individually or jointly as to them may seem fit to the president and general manager in writing any transactions or conditions affecting the well-being of the bank that are not satisfactory to them and in their opinion require rectification, and without restricting the generality of this requirement, they shall report to the president and general manager from time to time, upon loans owing to the bank by any person the aggregate

amount of which exceeds one per cent of the paid-up capital and rest account of the bank, in respect of which, in their opinion, loss to the bank is likely to occur; but when such a report has been made in respect of loans to any person it is not necessary to report again in respect of loans to that person unless in the opinion of the auditors the amount of the loss likely to occur has increased.

(11) Where the auditors make a report under subsection (10) they shall transmit it, in writing, to the president and general manager of the bank and the report shall be presented to the meeting of the directors next ensuing after it has been received and it shall be incorporated in the minutes thereof; and the auditors shall, at the time of transmitting the report to the president and general manager, give notice in writing by mail to each director at his recorded address that the report has been made for presentation to the meeting and incorporation in the minutes thereof and shall, at the same time, furnish a copy of the report to the Minister.

(12) The auditors shall make a report to the shareholders on the statement of the assets and liabilities of the bank to be submitted by the directors to the shareholders under section 58 during their tenure of office.

(13) The auditors' report shall state whether, in their opinion, the statement referred to in the report presents fairly the financial position of the bank, and

- (a) whether they have obtained all the information and explanations they have required,
- (b) whether, in their opinion, the transactions of the bank that have come under their notice have been within the powers of the bank, and
- (c) whether the statement is as shown by the books of the bank.

(14) The auditors' report shall be attached to the statement of assets and liabilities submitted by the directors to the shareholders under section 58 and the report shall be read before the shareholders at the annual general meeting.

(15) The auditors of the bank shall, if required by the shareholders, audit and report to the shareholders upon any statement submitted by the directors to the shareholders, and the report shall state.

- (a) whether they have obtained all the information and explanations they have required, and
- (b) whether, in their opinion, the statement presents fairly the information required by the shareholders.

(16) A report of the auditors made under subsection (15) shall be attached to the statement to which it relates and shall be read before the shareholders at any meeting at which the statement is submitted, and a copy of the statement and report shall be mailed by the directors to every shareholders at his recorded address and to the Minister.

(17) Except as provided in this section, an auditor of the bank shall not accept any remuneration from the bank for any work on behalf of the bank, other than that authorized by this Act in respect of his duties as auditor, unless a resolution of the directors declares the work to be necessary for the protection or benefit of the bank and authorizes the remuneration to be paid to him therefor.

(18) Where the bank carries on any of its operations in the name of a corporation controlled by the bank, the auditors of the bank shall

be the auditors of the corporation and the bank shall take all necessary steps to ensure that they are appointed auditors of the corporation accordingly.

(19) A reference in any Act or any regulation or order thereunder to a list of auditors required to be furnished to the Minister under this Act or to any auditor on such list shall be construed as a reference to an auditor who has the qualifications specified in subsection (1).

Clause 61. There is an amendment to 61. On page 26, line 12, delete the words: "from time to time". So, subclause 8 of clause 61 will read: "the minister may require that the auditors of the bank shall report to him upon the adequacy of the procedure adopted by the bank for the safety of its creditors and shareholders and as to the sufficiency of their own procedure in auditing the affairs of the bank".

Mr. FLEMING: More redundancy! I think they are carrying it to extremes.

The CHAIRMAN: Line 30, after the word "shall" insert the words "as occasion requires". So, it will read: "... they shall as occasion requires report to the president and general manager from time to time ...".

Mr. FRASER (*Peterborough*): How about the words "from time to time" in there?

The CHAIRMAN: That is out too.

Mr. FLEMING: I am shocked to find in line 17 the words "the minister, may in his discretion enlarge or extend ...". Is that not redundant? Is the minister going to be left with the discretion here?

The CHAIRMAN: This is on page 17.

Mr. ELDERKIN: I imagine it is one that they missed.

The CHAIRMAN: Subclause 9 of clause 61 stands.

On page 27, line 4, delete the words "during their tenure of office."

On page 26, subclause 9, I said stand. We will strike out the words "in his discretion", so it will read: "the minister may enlarge or extend the scope of the audit ...", so, with that amendment, Mr. Benidickson moves that the clause carries.

Carried.

Clause 62.

62.(1) The Governor in Council on the recommendation of the Minister shall appoint a person who in his opinion has had proper training and experience to carry out section 63 to be the Inspector General of Banks.

(2) The Inspector shall be appointed to hold office during good behaviour, but may be removed from office by the Governor in Council for misbehaviour or incapacity, inability, or failure to perform his duties properly.

(3) Where the Inspector is removed from office the Order in Council providing for the removal and documents relating thereto shall be laid before Parliament within the first fifteen days of the next ensuing session.

(4) The Inspector while holding office shall not perform any service for compensation other than the service rendered by him under section 63.

(5) The Minister may direct some other competent person to perform temporarily the duties of the Inspector in the event that the Inspector by reason of absence, illness or other incapacity is unable to perform the duties of Inspector or in the event of a vacancy in the office of Inspector.

(6) The Minister may appoint or employ on the recommendation of the Deputy Minister of Finance and the Inspector, such persons with training and experience and such clerical assistants as may be deemed necessary to carry out section 63.

(7) The Inspector shall be paid a salary fixed by the Governor in Council on the recommendation of the Minister, and the other persons appointed or employed under this section shall be paid such salary or remuneration as may be fixed by the Minister.

(8) All persons appointed or employed under this section are officers of the Department of Finance, but the provisions of the *Civil Service Act* do not apply to them.

(9) No person appointed or employed under this section shall borrow money from a bank unless he has first informed the Minister in writing of his intention to do so.

In line 11, after the word "parliament" insert the words "within 15 days after the making of the order or, if parliament is not then in session". The section will then read: "where the inspector is removed from office the Order in Council providing for the removal and documents relating thereto shall be laid before parliament within 15 days after the making of the order, or, if parliament is not then in session within the first 15 days of the next ensuing session." With that amendment shall the clause carry?

Carried.

Clause 63.

Carried.

Clause 64. Minor changes.

Carried.

Clause 65. No change.

Carried.

Clause 66. No change.

Carried.

Clause 67.

Carried.

Clause 68.

Carried.

Clause 69.

Carried.

Clause 70.

70. (1) No dividend or bonus shall be declared

(a) while the paid-up capital of the bank is impaired, or

(b) if as a result thereof the paid-up capital of the bank would be impaired.

(2) The directors who knowingly and wilfully concur in the declaration or making payable of any dividend or bonus contrary to subsection (1) are jointly and severally liable for the amount of such dividend or bonus, as a debt due by them to the bank.

(3) No division of profits on the paid-up capital stock of the bank exceeding the rate of eight per cent per annum, shall be made by the bank unless after making the division the bank has a rest account, equal to at least thirty per cent of its paid-up capital stock after making all necessary provisions for diminution in the value of assets.

(4) The directors who knowingly and wilfully concur in any division of profits contrary to subsection (3) are jointly and severally liable for the amount so divided, as a debt due by them to the bank.

Line 28, after the word "profits" insert the words "exceeding the rate of eight per cent per annum." Then, in line 29 delete the same words there. Now, subclause 3 of clause 70 will read: "No division of profits exceeding the rate of eight per cent per annum on the paid-up capital stock of a bank shall be made by the bank unless after making the division the bank has a rest account equal to at least thirty per cent of its paid-up capital stock after making all necessary provisions for ascertained and estimated diminution in the value of assets." That includes an amendment in line 33 also.

Clause 70 as amended, carried.

Clause 71, page 32.

71. (1) The bank shall maintain a cash reserve in the form of a deposit with the Bank of Canada and of Bank of Canada notes held by the bank, and such reserve shall be not less on the average during any month than eight per cent, or such other percentage as may be fixed by the Bank of Canada under the provisions of the *Bank of Canada Act*, of such of its deposit liabilities as are payable in Canadian currency.

(2) For the purpose of determining the amount of the cash reserve required to be maintained by a bank during any month

- (a) the amount of its deposit liabilities payable in Canadian currency shall be the average of such deposit liabilities at the close of business on Wednesdays in each of the four consecutive weeks ending with the last Wednesday but one in the preceding month.
- (b) the amount of Bank of Canada notes held by the bank shall be the average holdings of such notes at the close of business on Wednesdays in each of the four consecutive weeks ending with the last Wednesday but one in the preceding month, and
- (c) the amount of its deposit with the Bank of Canada shall be the average amount of such deposit at the close of business on each juridical day of the current month.

(3) If the property and assets of the Bank of Canada are insufficient to pay its debts and liabilities and the Bank of Canada suspends payment of any of its liabilities, the deposit made under this section by every bank is hereby guaranteed, and the Governor in Council, on the recommendation of the Minister, shall authorize payment out of the Consolidated Revenue Fund of such moneys as are necessary to implement the guarantee.

(4) The bank shall also maintain adequate reserves against liabilities payable in foreign currencies.

Mr. FLEMING: Mr. Chairman, could we have Mr. Elderkin tell us about the effect of clause 71 in the light of the provisions we have just approved in the Bank of Canada Act on this point of cash reserves?

Mr. ELDERKIN: This is the minimum cash reserve. The Bank of Canada Act picks it up from the eight per cent and if necessary can increase it. The last part of subsection (1) reads "such reserve shall be not less on the average during any month than eight per cent, or such other percentage as may be fixed by the Bank of Canada . . ." The eight per cent is the minimum. There is no provision in the Bank of Canada Act to reduce it below eight per cent. There the range is from eight to twelve per cent.

The CHAIRMAN: Shall clause 71 carry?

Carried.

Clause 72.

72. (1) Where the bank has issued its notes for circulation in a country outside Canada, it is liable to redeem them at par at any branch of the bank in that country and, except as provided in subsection (2), not elsewhere.

(2) Where the bank has issued its notes for circulation in a country outside Canada and ceases to have a branch in that country without making arrangements for the redemption in that country of the notes, the bank is liable to redeem them at the head office of the bank in Canadian currency at a rate of exchange to be established from time to time for the purpose by the Treasury Board.

(3) Where the bank has issued its notes for circulation in a country outside Canada, and under the laws in force in that country the bank is permitted or required to redeem the notes by a payment to a designated authority in that country, such a payment, if approved by the Treasury Board, discharges the liability of the bank in respect of the notes.

Lines 10 and 11 delete the words "from time to time". With that amendment shall clause 72 carry?

Carried.

Clause 73.

Carried.

Clause 74.

74. (1) Except as provided in subsection (4) of section 94, the bank may destroy books, records, documents, vouchers, paid instruments and papers in its possession where they are dated or were in existence or contain entries or writings made, more than twenty years prior to the destruction.

(2) Except as provided in subsection (3), in any action or proceeding the liability of the bank shall be determined by reference only to evidence of matters that have arisen or things that have occurred, including books and records or the portions thereof, and documents, vouchers, paid instruments and papers, that are dated or came into existence, or that contain entries or writings made, during the period of twenty years immediately preceding the commencement of the action or proceeding, or notices given during that period.

(3) In any action or proceeding to establish the ownership of shares of capital stock of the bank, such ownership shall be determined by reference only to evidence of matters that have arisen or things that have occurred, including books and records, or the portions thereof, and documents, vouchers, paid instruments and papers, that are dated or came into existence, or that contain entries or writings made, during the period of twenty years immediately preceding the commencement of the action, or proceeding, excepting the share register of the bank.

(4) Nothing in subsection (1), (2) or (3) affects the operation of any statute of limitation or prescription or the right of the bank to destroy any books, records, documents, vouchers, paid instruments or papers not specified in subsection (4) of section 94 or relieves the bank from any liability to the Bank of Canada in respect of any debt or instrument to which subsection (1) of section 94 applies.

There is an amendment in line 37, page 33. Delete the word "or" and insert the word "and". The subclause will read: "...the commencement of the action or proceeding, and notices given during that period." That is the only amendment to clause 74.

Carried.

Clause 75, on page 35.

75. (1) The bank may

- (a) open branches;
- (b) acquire, deal in, discount and lend money and make advances upon the security of, and take as security for any loan or advance made by it, bills of exchange, promissory notes and other negotiable instruments, gold and silver coin and bullion and securities;
- (c) lend money and make advances upon the security of, and take as security for any loan or advance made by it, lien or other notes, conditional sale contracts or any instruments or agreements made or entered into respecting the sale of goods, wares and merchandise, and money payable thereunder;
- (d) lend money and make advances without security; and
- (e) engage in and carry on such business generally as appertains to the business of banking.

(2) Except as authorized by or under this Act, the *National Housing Act, 1954*, the *Farm Improvement Loans Act* or the *Veterans' Business and Professional Loans Act*, the bank shall not, directly or indirectly,

- (a) issue or reissue notes of the bank payable to bearer on demand and intended for circulation;
- (b) deal in goods, wares and merchandise or engage in any trade or business;
- (c) acquire, deal in or lend money or make advances upon the security of shares of the capital stock of the bank or any other bank;
- (d) lend money or make advances on the security of real or immovable property, or of ships or vessels, or of goods, wares and merchandise;
- (e) lend money or make advances to or on the guarantee of the general manager or any officer or employee subordinate to the general manager
 - (i) without the consent of the directors, if the principal amount outstanding of loans and advances made to and secured by him, together with the proposed loan or advance, exceeds twenty-five hundred dollars, or
 - (ii) if the principal amount outstanding of loans and advances made to and secured by him, together with the proposed loan or advance, exceeds twenty thousand dollars;
- (f) lend money or make advances in a principal amount exceeding five per cent of its paid-up capital to a director of the bank or to any firm or corporation of which a director or the general manager of the bank is a member or shareholder without the consent of two-thirds of the directors present at a regular meeting of the board or a meeting of the board specially called for the purpose; and
- (g) except with the consent of the Treasury Board, contributed to any guarantee or pension fund if any part of the fund has, at any time after the coming into force of this Act, been invested in shares of the capital stock of a bank.

(3) A director of the bank shall not be present or vote at a meeting of the board during the time at the meeting when a loan or advance to himself or a firm or corporation of which he is a member or director is under consideration, unless the loan or advance is to a corporation controlled by the bank, all the issued capital stock of which, except the qualifying shares of directors, is owned by the bank.

(4) No officer or employee of the bank shall act as agent for any insurance company or for any person in the placing of insurance, nor shall the bank exercise pressure upon a borrower to place insurance for the security of the bank in any particular insurance agency, but nothing in this subsection precludes the bank from requiring such insurance to be placed with an insurance company approved by it.

(5) Nothing in paragraph (d) of subsection (2) shall be construed to prohibit the acquisition by the bank from a corporation of securities issued or guaranteed by the corporation that are secured on any property, whether in favour of a trustee or otherwise, or the making of a loan or advance by the bank to the corporation against the issue of such securities.

We will give you the amendments. On page 35, clause 75, line 3, delete the word "secured" and substitute the word "guaranteed". So, subclause (i) of clause 75 will read, at the top of page 35: "without the consent of the directors, if the principal amount outstanding of loans and advances made to and guaranteed by him, together with the proposed loan or advance, exceeds twenty-five hundred dollars, or" and then the same word "secured" is struck out and the word "guaranteed" substituted in line 7, so that subclause (ii) will read: "if the principal amount outstanding of loans and advances made to and guaranteed by him, together with the proposed loan or advance, exceeds twenty thousand dollars". Then, delete lines 25 and 26, and substitute the following words therefor: "when a loan or advance to himself or a firm of which he is a member or a corporation of which he is director is under consideration". Subclause 3 of clause 75 will now read: "A director of the bank shall not be present or vote at a meeting of the board during the time at the meeting when a loan or advance to himself or a firm of which he is a member or a corporation in which he is a director is under consideration."

Mr. TUCKER: If a person is a substantial shareholder he cannot take part in voting a loan to himself; now if this passes he can?

The CHAIRMAN: A director of a bank shall not be present or vote at a meeting of the board at a time when a loan or advance to himself or a firm of which he is a member or a corporation of which he is a director is under consideration.

Mr. FLEMING: This amendment does not have the effect that Mr. Tucker has indicated. It is rather an improvement that is being made here. A man cannot be a director of a firm; he is a member of a firm. He is a director of a corporation.

Mr. TUCKER: As I understand the law as it was before if a person is a substantial shareholder of a corporation he is a member of that corporation. When you belong to that corporation you can be said to be a member of it.

Mr. MICHENER: Is it intended to limit it to directors of corporations and members of firms and not intended to take in the shareholders?

The CHAIRMAN: No.

Mr. TUCKER: I do not think that he should be able to decide on a loan in a company in which he is a very substantial shareholder. But, he may be a very substantial shareholder and not a director, and in that event he could sit on the granting of a loan.

Mr. CANNON: The old Act does not use the word "member". It uses the word "partner" or "director". The word "member" is not in it.

The CHAIRMAN: I am informed that this is the same as the old Act.

Mr. TUCKER: Why was it changed in the bill from the old Act?

Mr. ELDERKIN: The draftsmen thought that this was clearer language. May I refer you to 75, 2 (f) starting with line 10 on page 35.

Mr. BENIDICKSON: If the loan is a substantial portion of the bank's assets.

Mr. CANNON: This subclause says: "or a corporation of which he is a director". There are many cases in which he would be an officer of a corporation and not a director.

The CHAIRMAN: Yes.

Mr. FLEMING: It is obvious that the section before us does not make any change in substance in the present law, and it is simply intended to make an improvement in the language. At first blush Mr. Tucker's point may appear to have something to commend it because we have, say, two applications for loans coming before the board of a bank, a board upon which sits a member who happens to hold one qualifying share in applicant A company and is a director thereof and he would have to abstain from voting. Application comes along from corporation B in which the same bank director holds 97 per cent of the issued stock, but is not a director thereof, and in that case he would not have to declare his interest. That is the law as it stands now. I suppose back of the law was the assumption that you might have many applications from a large corporation whose stock is widely held and in which the members of the board of the bank have large or small stockholdings, and it might cripple the board in dealing with an application of that kind to impose a disability on all directors of the bank.

Mr. CRESTOHL: How about the case of a hospital which is a corporation and has an application for a substantial loan? You will find there are many directors of banks who are also officers and directors of hospitals.

Mr. ELDERKIN: We have always ruled that they must not vote on it. We have given that ruling to the banks because the word "corporation" is there. This section has been in the Act in substantially the same form since 1934.

Mr. NOSEWORTHY: Why must one who is a member of the firm absent himself, but one who is a member of a corporation need not absent himself?

Mr. ELDERKIN: A member of a firm or a director of a corporation must absent himself.

Mr. NOSEWORTHY: If he is a member of a firm he must not be present, but he can be present if he is a member of a corporation.

Mr. ELDERKIN: If he is a shareholder of a corporation when a loan in excess of 5 per cent of the paid-up capital of the bank is being voted upon it must be approved by two thirds of the directors present.

Mr. FLEMING: That would not very often happen.

The CHAIRMAN: Not in these days.

Mr. NOSEWORTHY: It is making a difference between a member of a firm and a member of a corporation.

Mr. BENIDICKSON: A member of a firm has a full vote in that firm and a member of a corporation has not too much to do with that corporation.

Mr. STEWART: I ask that that clause stand.

The CHAIRMAN: Clause 75 stands.

Mr. CANNON: Clause 75, subclause 2 (c), was that in the old Act.

Mr. ELDERKIN: Yes. That prohibits banks from dealing in their own shares.

Mr. CANNON: Before we leave that section I suggest that some consideration might be given to the idea of adding after the word "director" in the fourth line, subparagraph 3, the words "who has a substantial interest."

The CHAIRMAN: The difficulty is to define the word "substantial".

Mr. CANNON: That would be left to the discretion of the board of directors.

Mr. HELLYER: Could this be referred back to the draftsman?

The CHAIRMAN: That is what Mr. Benidickson and Mr. Elderkin are here for, to bring about such corrections as will be suitable to the committee.

Mr. BENIDICKSON: I do not think that the members of the committee have paid too much attention to the provisions of clause 75, subclause 2 (f), as explained by Mr. Elderkin. In other words, when the amount of money being loaned is large in proportion to the capital in the bank then, of course, there is a provision there that even a shareholder who is not a director of the company but happens to be a director of the bank participates in a loan of that importance in relation to the bank not the corporation.

Mr. FLEMING: I do not think that we can attach much importance to that clause 75, subclause 2(f) because loans of that magnitude would be very rare indeed.

Mr. MICHENER: I should think you would find many bank directors who are also shareholders in most of the corporations where the banks do business in the ordinary course of affairs.

The CHAIRMAN: Yes. Well, gentlemen, clause 76, no changes, carried. Clause 76 is all right.

Clause 77, carried.

Clause 78 stands at the request of the minister.

Clause 79, no changes, carried.

Clause 80, carried, no changes.

Clause 81.

81. (1) The bank may acquire and hold real and immovable property for its actual use and occupation and the management of its business, and may sell or dispose of the same, and acquire other property in its stead for the same purpose.

(2) The bank may hold real or immovable property for a period of seven years

(a) from the day on which it acquired the property, or

(b) from the day on which it ceased to require the property for its own use, as determined by the directors, whichever is later, and forthwith after the expiry of that period the bank shall sell or otherwise dispose of the property absolutely so that the bank no longer has, directly or indirectly, any interest or control in respect thereof except by way of security.

(3) Where the bank fails to dispose of property in accordance with subsection (2), the Attorney General of Canada may, upon such notice as a Judge of the Exchequer Court of Canada may order, apply to a Judge of that Court for an order declaring the property to be forfeited to Her Majesty in right of Canada, and the Judge may, if he is satisfied that the bank has not disposed of the property in accordance with subsection (2), declare the property forfeited to Her Majesty, except that

(a) the property shall not be vested in Her Majesty before the expiry of six calendar months from the day on which notice of the application was given to the bank in accordance with the order of the Judge, and

(b) the bank may, at any time before the property vests in Her Majesty, sell or otherwise dispose of it as required by subsection (2) as if no application, order or declaration had been made.

There are some changes in clause 81. Clause 81 is changed by replacing lines 8 to 11 inclusive with the following: "(a) in the case of property acquired or held for its own use, from the day on which is ceases to be required for

its own use, as determined by the directors, and (b) in the case of other property, from the day on which it acquired the property, and forthwith after the expiry of that”.

Let me read it as the clause will read now:

Clause 81, subclause (2): “The bank may hold real or immovable property for a period of seven years (a) in the case of property acquired or held for its own use, from the day on which it ceases to be required for its own use, as determined by the directors and (b) in the case of other property from the day on which it acquired the property.

Mr. ELDERKIN: For a period—

The CHAIRMAN: I will read it again: “The bank may hold real or immovable property for a period of seven years (a) in the case of property acquired or held for its own use, from the day on which it ceases to be required for its own use, as determined by the directors and (b) in the case of other property from the day on which it acquired the property.”

Clause 81 carried as amended.

Clause 82.

Loans and Advances.

82. (1) The bank may lend money and make advances upon the security of any or all of the following:

- (a) hydrocarbons, in, upon or under the ground, in place or in storage;
 - (b) the rights, licences or permits of any person to obtain and remove any of such hydrocarbons and to enter upon, occupy and use lands from or on which any of such hydrocarbons are or may be produced;
 - (c) the estate or interest of any person in or to any such hydrocarbons, rights, licences, permits and lands whether such estate or interest is entire or partial; and
 - (d) the casing and equipment used or to be used in producing or seeking to produce and storing any such hydrocarbons;
- or of any rights or interests in or to any of the foregoing.

(2) Security under this section may be given by signature and delivery to the bank by or on behalf of the person giving the security of an instrument in the form set out in Schedule L or in a form to the like effect, and shall affect the property described in the instrument giving the security

- (a) of which the person giving the security is the owner at the time of the delivery of such instrument, or
 - (b) of which such person becomes the owner at any time thereafter before the release of the security by the bank, whether or not such property is in existence at the time of such delivery,
- all of which property is for the purposes of this Act property covered by the security.

(3) Any security given under this section vests in the bank, in addition to and without limitation of any other rights or powers vested in or conferred on it, full power, right and authority, through its officers or agents, in the event of

- (a) non-payment of any loan or advance as security for the payment of which the bank has taken the security, or
- (b) failure to care for, maintain, protect or preserve the property covered by the security,

to take possession of, seize, care for, maintain, use, operate and sell the property covered by the security or part thereof as it sees fit, returning to the person entitled thereto any surplus proceeds of any such operation or sale remaining after payment of all such loans and advances, with interest and expenses; a sale of any of the property by the bank vests in the purchaser all the right and title in and to such property that the person giving the security had when the security was given and that he acquired thereafter; unless the person by whom the security was given has agreed otherwise, any such sale shall be made by public auction after

- (c) notice of the time and place of the sale has been sent by registered mail to the recorded address of the person by whom the security was given, at least ten days prior to the sale, and
- (d) publication of an advertisement of the sale, at least two days prior to the sale, in at least two newspapers published in or nearest to the place where the sale is to be made; and if the sale is in the Province of Quebec at least one of such newspapers shall be a newspaper published in the English language and one other newspaper shall be a newspaper published in the French language.

(4) Subject to subsection (5), all the rights and powers of the bank in respect of the property covered by security given under this section, have priority over all rights subsequently acquired in, on or in respect of such property and also over the claim of any mechanics' lien holder or of any unpaid vendor of casing or equipment, but such priority does not extend over the claim of any unpaid vendor who had a lien upon the casing or equipment at the time of the acquisition by the bank of such security, unless the same was acquired without knowledge on the part of the bank of such lien.

(5) The rights and powers of the bank do not have priority over an interest or right acquired in, on or in respect of the property covered by security given under this section unless an original of the instrument giving the security, or a copy thereof, certified by an officer of the bank to be a true copy, or a caution, caveat or memorial in respect of the rights of the bank has been registered or filed in the proper registry or land titles office or office in which are recorded the rights, licences or permits referred to in this section, before the registration of such interest or right or the registration or filing of the deed or other instrument evidencing it, or of a caution, caveat or memorial in respect thereof, and every registrar or officer in charge of such proper registry or land titles or other office to whom an original of an instrument giving such security, or a copy thereof, certified by an officer of the bank to be a true copy, or a caution, caveat or memorial in respect of the rights of the bank is tendered, shall register or file the same according to the ordinary procedure for registering or filing within such office documents that evidence liens or charges against, or cautions, caveats or memorials in respect of claims to interests in or rights in respect of any such property and subject to payment of the like fees; but this subsection does not apply if the provincial law does not permit registration or filing of such original or certified copy of the instrument giving the security or a caution, caveat or memorial in respect of the rights of the bank.

(6) When making a loan or advance on the security provided for by this section, the bank may take, on any property covered by such security, any further security it sees fit.

(7) Notwithstanding anything in this Act, where the bank holds any security covering hydrocarbons, it may take in lieu thereof, to the extent

of the quantity covered by the security, any security covering or entitling it to the delivery of the same hydrocarbons or hydrocarbons of the same or a similar grade or kind.

Clause 82 on page 38, delete line 35 and substitute therefor: "(a) hydrocarbons in, under or upon the ground, in."

Clause 82 will now read: "The bank may lend money and make advances upon the security of any or all of the following: (a) hydrocarbons in, under or upon the ground, in place or in storage."

Mr. FLEMING: You have just changed the places of the words "under" and "upon".

Mr. ELDERKIN: The draftsman felt "under" was better in close relation to "in" than to split them with "upon."

Mr. FLEMING: We are becoming fastidious in our draftsmanship, aren't we?

The CHAIRMAN: Page 39, line 21, after the word "officers" in line 21, insert a comma and the word "employees." That clause will now read: "(3) any security given under this section vests in the bank, in addition to and without limitation of any other rights or powers vested in or conferred on it, full power, right and authority, through its officers, employees or agents". Insert after "to" in line 28, "do all or any of the following, namely," (b) failure to care for or maintain, protect or preserve the property covered by the security, to do all or any of the following, namely, take possession of, seize, care for, maintain, use, operate and sell the property covered by security or part thereof as it sees fit." It will read: "failure to care for, maintain, protect or preserve the property covered by the security, to do all or any of the following, namely take possession . . ." and it goes on.

Then, on page 40, delete lines 12 to 39 inclusive.

Mr. TUCKER: Subclause 3 on page 39 was in the Act before just as it is?

Mr. ELDERKIN: Section 82 is entirely new, having to do with loans on oil in or on the ground. It was never in the Act before, but follows very closely some of the provisions of section 88. It is a special section which deals only with loaning on oil.

The CHAIRMAN: This is rather an extended amendment on page 40. The clerk of the committee will place in your hands the amendment and you will see it on page 1194.

Mr. FLEMING: Will you tell us whether it is intended to effect changes in substance?

Mr. ELDERKIN: No.

Mr. FLEMING: It is only a matter of redrafting?

Mr. ELDERKIN: The draftsmen felt that the subclause as it was written originally was very long and hard to read and all they have done here is to break it into paragraphs to make it easier to read. There is no change of substance in the amendment whatsoever.

Mr. FLEMING: Mr. Chairman, perhaps you would read the new clause and we will follow the old clause.

The CHAIRMAN: "The rights and powers of the bank do not have priority over an interest or right acquired in, on or in respect of the property covered by security given under this section unless, prior to (a) the registration of such interest or right, or (b) the registration or filing of the deed or other instrument evidencing such interest or right, or of a caution, caveat or memorial in respect thereof, there has been registered or filed in the proper land registry or land titles office or office in which are recorded the rights, licences, or permits referred to in this section.

(c) an original of the instrument giving the security.

(d) a copy of the instrument giving the security, certified by an officer or employee of the bank to be a true copy,
or

(e) a caution, caveat or memorial in respect of the rights of the bank;

and every registrar or officer in charge of such proper land registry or land titles or other office to whom a document mentioned in paragraph (c), (d) or (e) is tendered, shall register or file the same according to the ordinary procedure for registering or filing within such office documents that evidence liens or charges against or cautions, caveats or memorials in respect of claims to interests in or rights in respect of any such property and subject to payment of the like fees; but this subsection does not apply if the provincial law does not permit such registration or filing of the tendered document.

Page 1,193 amendments to clause 82, page 40; by replacing subclause (7) with the following:

(7) Notwithstanding anything in this Act, where the bank holds any security whatever covering hydrocarbons, it may take in lieu of such security, to the extent of the quantity covered by the security taken, any security covering or entitling it to the delivery of the same hydrocarbons or hydrocarbons of the same or a similar grade or kind.

Mr. TUCKER: I would point out, Mr. Chairman, that the effect of this section is of course to make a great change in the law.

The CHAIRMAN: Change in the law?

Mr. TUCKER: Yes, I think it does because under the present law if a person gives security on real property and is not able to pay he has certain rights of redemption which are protected under British and Canadian law. As I understand it, if a person, for example, in the province of Saskatchewan, has mineral rights which are valuable he might pledge them to a bank. They are held by a title registered the same as a title to any other real property. If I understand this section, if he borrowed on the security of them and failed to pay, the bank would not under this section have to foreclose its interest in that security at all. It could take steps herein set out to sell without the person being given any period of redemption or anything of the sort. Now, I do not know anything about the oil interests or their views, but I do know the right of redemption of mortgaged rights in real property has been something that has been jealously guarded under our laws and this is now certainly changing the situation because the bank is being given the right to step in, on failure to pay the debt, and take possession of the property, operate it or sell it as it sees fit, providing there is notice of the time and place of sale at least 10 days prior to the sale, and that there is an advertisement of the sale published at least two days prior to the sale. In other words, if a person pledges a very valuable interest in mineral rights and fails to pay the debt the bank can step in and sell it on very little notice for whatever they can get for it, and there is no real equity of redemption there at all.

Mr. NOSEWORTHY: In view of the length of this section, I move we leave it over to the next session and call it a day.

The CHAIRMAN: Stand.

Mr. MICHENER: The drafting, to my mind, is defective, starting with (a), (b) for one purpose and carrying on with (c), (d) and (e) for another purpose.

Mr. ELDERKIN: Could I have that comment again?

Mr. MICHENER: (a) (b) are for the purpose of determining the priority and the others relate to the documents which have to be filed. It seems to

me it should be redrafted so that it would be clear that (a) (b) and (c) (d) and (e) are not of the same order because they are not.

Mr. ELDERKIN: I shall leave that to the lawyers.

Clause 83, carried.

Mr. FLEMING: What time will we rise?

The CHAIRMAN: We could rise now because we have had a heavy afternoon. Let us see where we stand.

Clause 84.

The bank may lend money and make advances to a receiver, to a receiver and manager, to a liquidator appointed under any Winding-up Act, or to a custodian, interim receiver, or trustee under the Bankruptcy Act, if the receiver, receiver and manager, liquidator, custodian, interim receiver or trustee, has been duly authorized or empowered to borrow, and, in making the loan or advance, or thereafter, the bank may take security, with or without personal liability, from the receiver, receiver and manager, liquidator, custodian, interim receiver or trustee to such an amount, and upon such property as may be directed or authorized by any court of competent jurisdiction.

Clause 84 has a slight amendment. On page 41, in line 14 the word "or" should be replaced with the word "and".

Mr. TUCKER: You will notice here something along the lines I was mentioning. Clause 85, subclause (2) regards the law of the provinces in regard to foreclosing on rights. But, you will notice what I was trying to point out in regard to this that 83(1) gives the banks overriding rights to take a man's property away without any equity of redemption.

The CHAIRMAN: Page 41, clause 85, lines 36 and 37 delete the words: "making the advances." So, it will read "by the law of such province, conferred or imposed upon individuals."

Clause 85.

Carried.

Clause 86.

Stands.

Mr. TUCKER: Just a minute. If you are going to leave individuals in, it seems to me it raises the question of whether you confer that upon corporations. Why do you not simply say: "as exists by the law of such province."

Mr. ELDERKIN: I am afraid that I will have to refer that to our law officers. It is the same as it has always been in the Act. I could not tell you why it refers to individuals.

The CHAIRMAN: Clause 85 stands for the draftsman.

Clause 86.

Stands.

Clause 87.

Carried.

Clause 88.

Stands.

Thank you, gentlemen.

APPENDIX "A"

Being a Brief Submitted by
THE LEAGUE FOR ECONOMIC DEMOCRACY

BRIEF

prepared by

Harry H. Hallatt, Hon. Pres.

of

The League for Economic Democracy

for presentation to

THE BANKING AND COMMERCE COMMITTEE

OF

THE PARLIAMENT OF CANADA

1954

The League for Economic Democracy is pleased to present for your consideration the following facts and comments thereon respecting our economic system in general, but more particularly in respect to our money and banking, and our production and distribution systems, and wishes to bring to your attention a very definite and detailed plan which, if put into operation, will solve our unemployment, housing, burdensome public debt and other pressing economic and social problems.

These problems stem from a lack of understanding of our money and banking system—from an amazing ignorance of the nature of money. It is this lack of understanding, this failure to learn the truth about our medium of exchange that has been responsible for booms and busts, for poverty, often times in the midst of plenty, for the wearisome struggle for existence by a large percentage of the world's population down the centuries.

Money is neither gold, silver, paper, nor any other substance. There is no such thing as a gold standard or gold measure of values. Such a thing is a physical impossibility.

Money is a numerical price language in which we express prices in arriving at a basis for the exchange of goods and services and is brought into existence as a numerical record of production and the ownership of production, and as such, serves as a medium of exchange.

The issuance and retirement of money, as goods are produced and consumed, is a service like any other service and is worth the mental and manual labor involved in so issuing and retiring it and in handling it, plus a competitive profit for handling it in private enterprise.

Our economic difficulties arise mostly because of the private issuance and retirement of our money supply and because of the exorbitant prices we are obliged to pay for our private money service in housing and public service activities.

But it is not alone the high prices we now pay for money, that contributes to our unemployment, housing and other problems. It is the failure to direct the issuance of money into activities that will provide our people first with their primary needs that results in shortages in housing, public utility services and other basic needs.

Our private money and banking business is a POWER APART from responsible government. Our Central Bank can exercise very little control over our private banks in so far as the direction of the issuance of money into productive activities is concerned.

In actual practice the so-called open market operations, designed to control the volume of cash reserves of the private banks and thus influence policies of credit expansion and contraction, have little effect one way or the other. Being able and being allowed to lend money are not the factors which determine whether banks, more so than anyone else, will make loans.

And this is as it should be. Money lending in private enterprise should be a competitive business. But to make the money lending business truly competitive, we cannot allow a few people to enjoy a monopoly of the right to create and cancel our money supply.

We should have a money supply that private individuals or institutions cannot destroy at will, even in part. In the last major depression our bankers destroyed about half of our pay-roll money and thus put about half of our labor force into complete or near idleness.

It is definitely the responsibility of all the people through responsible government at all levels to provide an opportunity for each and every able worker to produce his needs to the best of his ability. We are all members of the community and all good citizens contribute to its success. No longer can responsible government deny anyone the right of opportunity to be a member in good standing.

In our present system of financing the production and distribution of our needs and wants, we have put the cart before the horse. In actual practice we demand a job for money before we expect to provide work for men. Instead of deciding what we first need and then offering competitive earnings in supplying those needs, and such amenities as we are capable of producing, we insist on investment first and a fabulous fee for the private creation of the money needed in processing and exchanging goods and services, before anyone can start producing them.

The solution of our problem is as simple as it is obvious. We regard as sound the principle of issuing money against sound backing. To the extent that we issue money against monetary gold, something we do not use, such money is inflationary and to that extent the practice is an absurdity. Our bankers now issue and cancel money many times in the processing and final production and in the distribution of almost every item of goods produced. No system of monetization could be more haphazard and costly.

The obviously sensible thing to do is to issue money against the most useful and durable units of needed wealth, that are least subject to obsolescence, and recall it on a sound amortization basis.

To do this at the least cost and at the same time retain for government the direction of the issuance of money into channels of activity that will provide primary needs first, we would utilize our existing finance, assessment, taxation and collection departments of government at all levels and, of course, a central issuing and planning board operating in conjunction with our central bank.

It can be shown that the cost of money issued and retired in this manner would be comparatively negligible and could be recovered in general taxation, as was the cost of certificates issued against gold, but regardless of the method employed in collecting such expense, it would be found that the cost of issuing and recalling money needed for all housing and public projects, including limited capital expenditures for wars and defense, would be less than one half of one per cent per annum.

It would be found that the amount of money issued for these purposes would be sufficient for all purposes, thus giving government absolute control over our economic stabilizing mechanism.

Issuing money in this manner would in no way interfere with our system of rewarding initiative in our free enterprise system. Homes are not part of our

production mechanism and of course all public projects are supposed to serve us at cost. In no way would we be interfering with private profit in the actual production of goods and in the performance of private services by eliminating the opportunity for private profit in financing homes of reasonably average utility, after they are built, or in financing public projects in which there is no element of private risk. Only by limiting private profit to that which is earned in actual production and in the actual performance of private services can we completely justify the free enterprise system.

There would be, under this, the Hallatt Plan for the issuance and recall of needed money, no public debt nor mortgages on homes of reasonably average utility, in the sense that such debts are now payable to individuals with interest. Existing money issued against housing and public projects would be outstanding as an evidence of their existence, and would be recalled on a sound amortization basis—a simple matter of accurate accounting.

Paying off the internal public debt and the present mortgages on houses would increase the amount of money in existence, for some time to come, but so doing would not result in inflationary pressures. Indeed we would have to be on guard against the development of a deflationary situation, in as-much-as the hundreds of millions of unearned interest money would be cut off and spending would consequently be greatly reduced.

We would of course at once begin constructing, enlarging, modernizing and repairing homes and public service projects. Putting all our people to work would immediately stabilize earning and spending. For some years the amount of money that would be recalled from housing and from public projects would greatly exceed the amount required to be issued in providing adequate housing and public services, but this would mean that the people would be paying for their homes, in which case the money thus paid should and would be cancelled.

There would of course always be enough money in existence with which to carry on all possible private production and private service activities as well as housing and public service projects. As the economy expanded additional money would be issued.

Attached is a diagram showing how money would be issued, circulated and retired under the Hallatt Plan for Economic Democracy. In studying the plan many questions will arise in your minds, largely born of wonderment that the solution to our economic problems could be so simple. There is a simple answer to your every question.

I have written several pamphlets in which many if not most of your questions have been answered, and these are available to you. Mr. George E. Creed, President of the League for Economic Democracy, has written a book on the Hallatt Plan and it is also available.

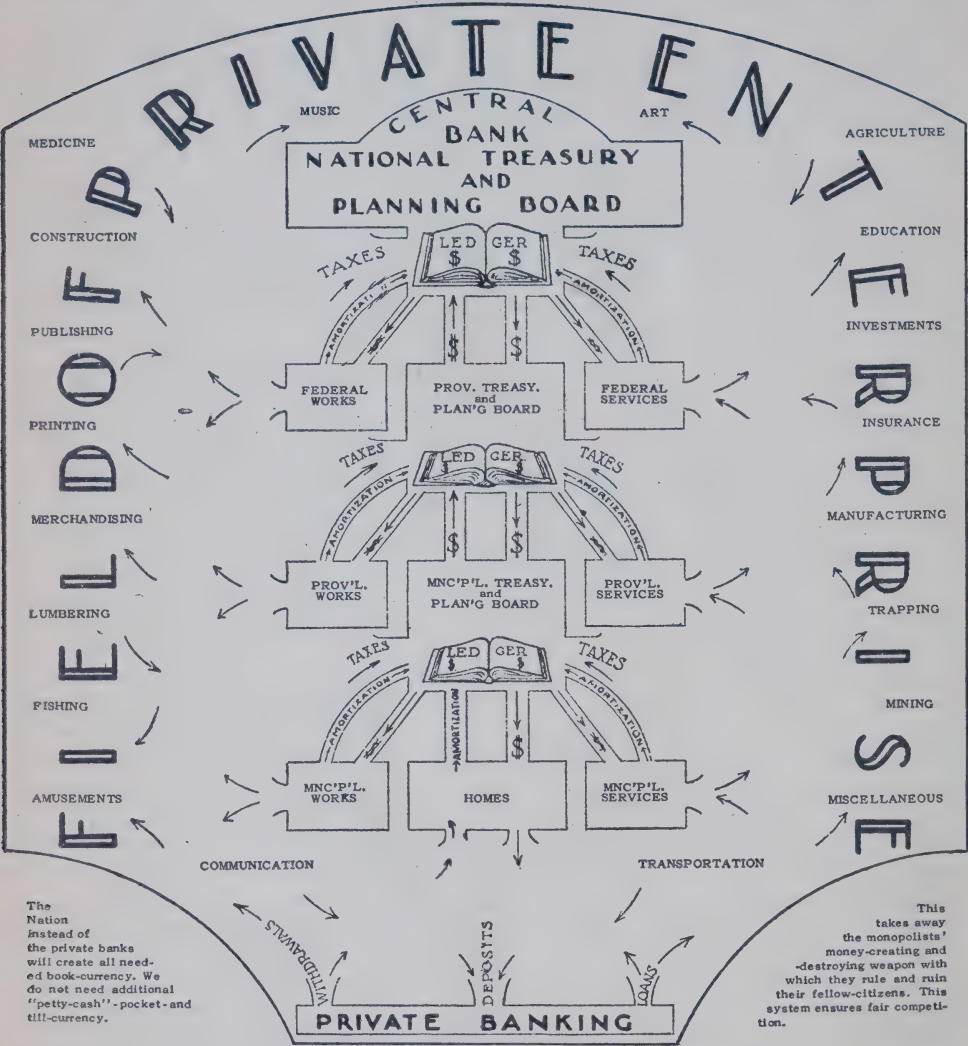
The gratifying result of putting the Hallatt Plan into operation is that there will be no adverse disturbance to any of our financial institutions. Our private banks will continue to be exactly what they now claim to be,—transfer and loaning agents for their depositors' money. And those who receive money for their government bonds and debentures and for mortgages on homes would have opportunities to invest through investment trusts and insurance companies in private production and service enterprises generally that would be, because of national economic and monetary control, as safe and sound as the nation itself, and from which enterprises all earnings must come anyway. All that needs to be done is to give national authority to the issuance and recall of our money and to direct its issuance, at cost, into activities that will first provide our primary needs.

The Bank Act should be amended accordingly under the provisions and by authority of the British North America Act.

SCIENTIFIC MONEY, ITS ISSUE AND RECALL

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BY HARRY H. HALLATT



The Nation instead of the private banks will create all needed book-currency. We do not need additional "petty-cash"-pocket-and-till-currency.

This takes away the monopolists' money-creating and -destroying weapon with which they rule and ruin their fellow-citizens. This system ensures fair competition.

Under a National Money System all money will be created by the Central Bank and distributed direct through the provinces and Municipalities, as shown on the chart, for public works and services; for home building, and for such other activities as the people decide should render services to the public at cost. This will provide ample money for all purposes. Outstanding money will always be kept sound through the recall of each issue as the specific units of wealth against which it is advanced depreciate. Our chartered banks will become exactly what they claim to be, namely, depositories for the people's money, and loaning and money-transfer agencies. They will cease to be debt-money manufacturers.

APPENDIX "B"

Being a Brief Submitted by

Mr. FRANK O'HEARN

Director of Research,

The Office of Valuation and Exchange, Toronto

Toronto, Ontario,
MARCH 10th, 1954

Mr. David A. Croll, M.P.,
Chairman,
Banking and Commerce Committee,
House of Commons,
Ottawa, Ont.

Re: The Bank Act Revision

Dear Sir:

As the revision of The Bank Act has been referred to your Committee for consideration I am taking the liberty of writing you as follows:—

The Bank Act revision is generally regarded as the most important task for the current session of Parliament. In this connection, I would suggest that while the present Bank Act certainly needs to be revised and clarified in various ways, the proper enforcement right now of the Act as it presently stands is still more important. Permit me also to advise that for years past I have been urging the banks to comply with the existing laws and have also urged the Finance Department repeatedly to properly enforce them, but each time I was rebuffed—they ignored my appeals. Obviously, there is little point in improving the Act itself if the banks are permitted to brazenly operate outside The Bank Act and the other Statutes governing them, as they are now doing.

Therefore, the most urgent step for Parliament now to take before renewing the Bank Charters for a further period is to make the renewals conditional upon the strict carrying out of the amended Act, and to call for a complete cash settlement of their transaction to date in order to bring their financial condition in accord with the facts and the requirements of the existing Bank Act and Charters.

As I have pointed out, the banks operate altogether outside the present Acts governing their operations—they have in fact always done so. As a result, the financial affairs of the banks, and of the government and public too, have gotten into a most fantastic and almost unbelievable condition—let me elaborate;

The Chartered Banks at the present time hold investment assets of various kinds to a total of approximately ten billion dollars. Strange as it may seem, they got all these holdings from the people and government of Canada for absolutely nothing. This was brought about primarily because the banks acquired their holdings without putting up any money at all—they got them all through trickery. The time has now come for them to either give up their illgotten holdings or pay for them.

The propaganda put out by the banks to the effect that they paid or loaned out 10 times the amount they hold or collected in, and that they issued money to pay for their holdings, or paid for them with money collected from their customers, are fallacies of the worst kind—despicable human deception.

Here's what they actually did:—Instead of putting up money for their holdings, they merely credited their customers accounts with the amounts owing. Now, had these debts to their customers been honored by the banks, there would be no cause for complaint but again strange to report, they were subsequently all cancelled, rescinded and repudiated, leaving the investment holdings in the hands of the banks unpaid for.

Of course, the banks may claim that their credits were honored and their debts paid when their customers issued paper against them, but my investigations have disclosed that this is not the case at all. The truth of the matter is that all the paper issued by the government and other bank customers in Canada, as cash transfers was used as money too, and not only as intended. This paper having been issued and used in this manner as money in exchange, and having been deposited with the banks as money and accepted by them as money for deposit and repayments, should have been subsequently treated and handled by the banks as money only, and recorded, accounted for and used as money only. Instead, this paper was mis-used by the banks after deposit for a dual purpose. Having been used as money, they subsequently also used it as bank scrip, vouchers and clearing house pair-offs too.

This tricky practice contravenes the existing Bank Act, which clearly indicates that the deposit liabilities set up by the banks may be set up only by reason of money deposited with them by their customers. This paper money should therefore have been certified as cash and retained as customers money on hand—particularly so when such money was collected from the government and other bank customers as loan repayments or other settlements—and not mis-used as was done. So, when charges against their customers accounts were made for the amounts of the paper issued by the government and other banking customers and used as money, those charges rescinded the credits and thereby cancelled their indebtedness to customers. Those cancellation charges should therefore have been offset by corresponding credits to the profit accounts—this the banks failed to do. Instead, they set up credits to their cash accounts making it appear that in place of realizing a clear cash profit from the cancellation of their liabilities or from cashing-in unpaid-for investment holdings, they paid out the money collected from their customers.

Nothing could be further from the truth—no such cash payments were ever paid out by the banks to their customers. The payments recorded were fictitious, and the cash credits were grossly mis-placed—they should have gone to their profit accounts. To use the words of Finance Department officials to the writer, “all such payments were made in effect only—not actually”. Hence, the bank collections actually remained with the banks and increased their own resources.

This practice of the banks of unlawfully setting up entries on their books cancelling their liabilities and collections, and recording transactions that never really took place at all, lead to the issue by them of incorrect statements of their financial condition. Furthermore, this rigging up of their books and records concealed all the profits accruing from the issue of the money by their customers in the first place—which profits belong to the issuers, the people and government of Canada. It also concealed the ultimate loss of all the customers money collected in by them by way of deposits and repayments. Hence it is too that the banks now end up by having all their investment holdings on hand unpaid for, and without having on hand any of the ten billions hard-earned money deposited with them or paid to them by their customers, —surely a strange condition indeed.

I have disclosed that all the customers money collected in by the banks as deposits and repayments is now out of use. This depletion of their money assets

was made possible by misplacing credits to their cash accounts, as herein-before set out—the misplaced credits wiped the customers cash items from their books. As to the money itself, it was all invalidated and done away with. The customers paper which had been accepted as money, was removed from the cash cages and instead of being put in the cash vaults or replaced, was mis-used as bank scrip, vouchers, and clearing house pair-offs. Moreover, when so removed it was never replaced with cash money of any other kind, as obviously should have been done, nor was the cash overdraft or deficit reported. These foolish and illegal methods employed by the banks including the Bank of Canada have therefore cost us the loss of ten billion dollars of our hard-earned cash savings.

Hence it is that because the banks operate without any money, in direct contravention to The Bank Acts there isn't any depositors money on hand in Canada at all—the fact is that there's only unredeemable bank scrip. Hence it is also, that the amount of deposits and profits reported by the banks total but one-half of the net amount of money actually collected by them from the customers. The truth of this is evidenced by the ten billion dollar accumulated deficit of the government and our huge unpayable public and private debts. In other words, this is one of the results of the government's abortive attempts to finance by spurious deficits, and of the banks to finance by counterfeit credits—without using depositors money up to the total specified.

The methods used by the banks and condoned by the Finance Department, which brought about this deplorable condition, are strictly prohibited by the present Bank Act and other Statutes governing their operations. The banks are required to account for all the money collected in by them as deposits or repayments; They are required to disclose all profits, including overdraft or currency profits; They are required to file and publish true statements of their financial conditions; They may not deface, destroy or invalidate any paper once used as money without replacing it, nor may they devalue any money collected in by way of deposits or repayments.

Even though the Statutes do permit banks to operate with cash reserves against deposits of but 5 per cent, the fact remains that had they safeguarded their collections, their cash or capital resources would now exceed their present deposit liabilities. The cash reserve legislation is therefore superfluous and deceptive legislation, and it should be deleted from the amended Act. Moreover, the Statutes require the Banks to report their true financial condition. To comply with this requirement, the Bank of Canada and the Chartered Banks should have reported their cash overdrafts and deficiency in cash reserves. Instead of paying out or lending 10 times the amounts they have on hand, as claimed by the bankers, their overdraft transactions led to the issue of 10 billions in paper money by their customers. To this overdraft money there accrued a clear profit and the banks should have disclosed this overdraft profit on the liability side of their statements to balance off against the cash or reserve deficits which they omitted from the asset side of their statements. Unfortunately, they unlawfully concealed both and failed to report either. All these things are provided for by the existing Bank Act—that's why I claim that enforcement of existing Statutes is really more important than any contemplated revisions. All that is required is clarification and amplification of existing Statutes and enforcement of the spirit and letter of the Law.

From the foregoing, it's obvious that the important thing now to be done before the banking Charters are renewed, is to arrange for the recovery of the ten billion dollars we are now deprived of. For, without this money we can't honor our public or private debts, nor can we purchase our own production at profitable prices. Neither can we escape the more disastrous evils now threatening us from the want of this money—it is absolutely necessary for our

defense and to sustain our economy. Imagine, having men and machines ready for our defence and no money put by! By depriving ourselves of half of our hard-earned cash savings, we have placed ourselves in the hands of the banks and have left our economy and defense wide open to collapse or attack.

Having drawn these matters to the attention of the Finance Department, over a long period of years, and having uncovered these deplorable conditions in the first place, I have also suggested various ways in which our missing cash may be replaced, forthwith or over a period of time. For instance, the five billion dollars of unmatured government securities still held by all banks including the Bank of Canada, could be called in and replaced with suitable bank or government paper money. Doing this would permit a costless reduction in the public debt and carrying charges; or, the bonds could be re-sold to the public, yielding in either case, a five billion dollar profit to the government Treasury. This would cut the accumulated government deficit right in half forthwith. To take care of the remaining five billion dollar shortage, a reserve fund of government or bank cash could be set up always to be available for defense and other spending purposes as required.

But, regardless whether the invalidated money is replaced and made available as a banking asset or not, the cash overdraft or deficit should be recorded and the ten billion dollar undisclosed overdraft profits should be cashed in. These profits, which were not recorded by the banks either when they got their present investment holdings for nothing or when they disposed of previously held unpaid for holdings for cash and in that way got money from the government and other bank customers for nothing instead, should now be recorded and turned over to the government. Otherwise, the charges made by them against the checking balances of the government and public, which gave rise to the profits, were unwarranted and misplaced, and should now be cancelled and removed and the checking balances restored or the government bonds and other holdings should be returned free. In any event to comply with existing laws the checking balances should be restored, and made available for public purposes. To put it another way, the ten billion dollar unreported and uncashed profit on the costless money issued by banking customers should be capitalized forthwith, and socialized for the public benefit. This is absolutely necessary to sustain our economy—even though the banks record a cash overdraft or deficit in place of their invalidated cash collections. If Parliament can swallow a spurious government deficit, it shouldn't permit a banking deficit or cash overdraft to stand in the way of a legitimate profit. But, whether overdraft deficits or cash is decided on, the profit should be capitalized and taxed—regardless of the rate of taxation.

Or, in lieu of now replacing all the money heretofore invalidated and cashing-in all the concealed banking profits to date, an acceptable alternative would be to have the Bank Acts revised to clearly stipulate that henceforth all paper collected in by any bank from the government as repayment of loans now open on their books, or as deposits or as redemption on maturity of government securities now held as investments, must be recorded, handled and held as cash on hand. This new banking procedure should be carried out until the cash assets of the banks equal at least to their holdings of investment securities, loans and scrip. The refusal of the banks to do this heretofore is their big blunder and costly breach of the existing Bank Act. In other words, the Bank of Canada and the Chartered Banks failed to report as cash on hand the money collected in from the sale and redemption of unpaid for securities previously carried as investment assets—they invalidated the cash collections and rejected and concealed the profits which would have materialized had the collections been carried as cash assets to replace the securities disposed of. The revised Acts should also clearly stipulate that all profits resulting from this improved

method would go to the government treasury, regardless whether such bank collections originate from checking accounts or government issues. This alternative method would also provide over a period of time a ten billion dollar profit to the government. When any of the suggested proposals are given effect, cause for complaint would be mainly removed.

The foregoing can be done without cost to anybody; without collecting any additional taxes; without increasing the public debt; without inflation of any kind, and even without causing any great inconvenience to the banks. In fact we would all be much better off—we would be enriched by ten billion dollars—\$700 per capita. Costless reductions in taxes, debts, costs and prices would automatically follow. This and more could be done merely by cashing in our currency profits and replacing the customers money invalidated by the unlawful banking methods disclosed—by merely enforcing the banking and currency laws now existing.

Let me here deviate somewhat:— The Government has announced its intention to have The Bank Act revised so that the banks may handle housing loans in the same manner they now handle commercial loans and investments. While this may be in order, if it is done, the banks will be enabled to get untold millions in mortgages on our homes without cost to themselves—further enslaving us in unpayable bank debt. To top it off, in the event we foolishly again become involved in war, the government not having any cash reserved, would immediately turn to the banks for more spurious credits and end up by again giving them still more billions of public securities for nothing. And the banks could of course as in the past go on producing unending amounts of spurious scrip and credits without effort or cost. Now the point here is that as they can set up costless balances to get money and securities for nothing from their customers, they can by the same token, set up without cost to themselves the scrip and checking balances necessary to settle up their moral and legal obligations—for the full ten billion dollars they owe us. Such a settlement now would obviate the necessity of looking to them for housing and defense scrip and would also remove one of the basic causes of depressions and wars. It would be folly for us to longer deprive ourselves of this missing invalidated half of our cash savings, when doing so leaves us so open to collapse, or an even worse fate. The time has now come to not only improve The Bank Act but to enforce the stipulations of the Act as they are now enacted.

Of course, the extensive investigation we had to make to enable this submission was not easy by any means—it was extremely lengthy and expensive. This is why I have suggested to the Government that if a ten billion dollar gain to the people of Canada results from our efforts, we be compensated accordingly.

It is fortunate for Canadians that our proposals, which we have long advanced, are supported by facts and are based upon the legal requirements of existing Statutes. They are therefore sound and economic and should not be confused with any unsupported suggestions. Any similarity of other proposals to ours is merely co-incidental. By giving effect to our proposals we can enrich ourselves by ten billion dollars. Otherwise, Canadians must work out their financial salvation by the only alternatives, i.e., by enforced labor and maybe more blood, sweat and tears. The choice rests with your Committee and Parliament and we hope you do not let us down.

This submission, made for the public welfare, should be sufficient to enable Parliament to inaugurate a new and better financial and economic era for Canada. Our banks and government would be placed in a solvent condition for the first time in history. Prosperity and peace would surely result. Other nations would follow our lead. We would have a sound and workable banking and money system at long last.

As your Committee or Parliament may require further explanatory information or data to sustain this submission I would like to appear before you and meet such requirements if you will permit me to do so. I will even help supervise the changes required in The Bank Act and their proper enforcement, if called upon to do so.

It seems in view of the foregoing, that no other choice is open to us but to put our financial and banking affairs in order now—or else suffer the disastrous consequences of our delinquency. Anyone blocking recovery of the depositors' money, whether through ignorance or design, is acting against the public interest and should be regarded as unpatriotic and anti-social. I trust therefore, that this submission will lead to better banking in Canada; to the enforcement and beneficial revision of the Bank Act, and to a cash settlement—forthwith or over a period of time. In this way only can a balanced economy and a stabilized dollar become a reality.

Hoping your Committee will assume its full responsibility herein and take advantage of this opportunity to have our banking affairs and public economy placed in a sound, solvent and prosperous condition, I am,

Your Petitioner

(Frank O'Hearn),
Director of Research.

The Office of Valuation and Exchange
on behalf of 16 million Canadians who
are unwittingly being deprived of \$10
billions of their hard-earned cash
savings to their great loss and damage
—all as hereinbefore disclosed.

2269 Queen St. E., (10)
Toronto, 8, Canada.

Explanatory Statement No. 1 of Frank O'Hearn

Mr. Chairman and Members of the Committee:

Permit me first of all to thank you for accepting my brief and explanatory statements for consideration.

Next, I take the liberty of suggesting that in revising our banking laws, you might approach the matter in a big way, because your decisions will affect every person in Canada during the coming 10 years. You Gentlemen certainly represent all of the Canadian people, so this is not just a matter for political expediency—the welfare of all the people should be protected.

I would also caution you not to get so involved in the minor details of bank operations as to overlook the fundamentals. After all, the details of the Bank Act and the Rules and Regulations are in a sense, merely a guide for the bankers in their operations. I would therefore, suggest that a suitable Preamble be added to the revised Act; that this Preamble should set forth the general aims and objectives of the banking operations, in its relations to depositors, borrowers and investors, and particularly so in its relations to governmental financing and to our total economy in general. I regard such a Preamble as essential to the detailed interpretation of the Acts. Such a Preamble should also make it clear that the banks are required to safeguard every dollar of the moneys paid to them or placed on deposit with them. They should be required also to protect the exchange value of such moneys insofar as possible, and to take all steps within their power to prevent wide fluctuations in its value. Their investment privileges should also be clearly stated and defined.

Following up this proposal, I would also suggest that under Sec. 2 of the Act entitled "Interpretations", there be included therein the definitions of such banking terms as deposits, credits, certified and unmarked cheques, bank scrip, advances, promises-to-pay, investments, accounts receivables, bills and notes, currency and currency profits, cash and money.

With particular reference to the commonly used term "MONEY", having regard to the general confusion as to its meaning, your definition should be incontrovertibly specific. It should definitely state just what our money is to consist of, what its cost is to be, who is to issue it, what the total issue is to be, and who is to get the profit on its issue. This is obviously essential to interpreting the Act.

I hope you will agree that such definitions are badly needed in order that we may all talk the same language, and know exactly what is meant when we use the foregoing terms. This is obviously essential to end the widespread confusion now existing in this regard.

I would now add that I am a friend of the bank customers and the banks alike; of the governments and people too. I feel that we have something of great value—it's worth \$12 billions, and I want to sell it to you. Our plans, specifications and formulae are entirely constructive, and so are my criticisms of the bad parts of our current banking, governmental and general financial practices.

So, I send you good news to-day—big news for you and the Canadian people and government. I am going to tell you just how we can get \$10 billions from the Chartered Banks free—for the mere asking.

Now this might sound fantastic to uninformed minds, but so did the statement by Henry Ford years ago that he was going to put America on wheels; so did Marconi's promise that his voice would be heard across the Atlantic without the use of cables or phone wires. We have all heard those and many more fantastic sounding statements, but we have seen them come to fruition. Similar doubt existed before most of the other great advances in human affairs matured, and believe it or not, this is one of those epoch-making things—we're about to enrich ourselves in \$10 billions, all without further cost to anybody.

I am also going to tell you just why the banks are legally and morally bound to turn these funds over to us, and how this total accrued to them from their cash or overdraft operations, and also why they must and how they can now turn it over to us for the public good.

These are several ways open to me to explain this phenomena to you, and they all come out with the same answer, which should be proof enough of their accuracy. So, let me put it to you in this way;—

In their testimony before this Committee, both Mr. Atkinson and M. Towers definitely and emphatically declared that "bank deposits are liabilities". Now Gentlemen, this is just another part of banking propaganda. It is one of those half-truths which if declared loudly and often enough, tends to become generally accepted as the whole truth. Like other preachers of false propaganda, the banks apparently operate on the theory that if a lie is big enough and is repeated often enough the people will accept it as being true and factual. The fact is that the Canadian people have been so thoroughly brain-washed by the false propaganda of the banks during the past century that it almost appears to be blasphemous even to question the soundness and propriety of their methods, despite our long record of financial instability.

Now, regardless of what the bankers state, the fact still remains that no bank or anybody else could possibly incur a deposit liability without at the

same time getting a deposit asset. If they got no asset they incurred no liability, and the fact that they recorded a deposit liability is proof sufficient they must have also got a deposit asset at the same time.

The orthodox method of accounting and double-entry bookkeeping used to record such deposit receipts and deposit liabilities, is to list the receipts as an asset, on the asset side of the books and statements, and to list the liabilities as a liability on the liability side. But the banks chose to resort to a method peculiarly their own—an unorthodox and unlawful method. They put their deposit receipts in with their deposit liabilities, and lumped them all together as a liability under the heading of "deposits". That is, they put \$10 billions of deposit resources in with \$10 billions of deposit liabilities—\$20 billions in all—and lumped them all together and reported them as liabilities for \$10 billions only under the heading of "deposits".

I would therefor point out that because the banks did not have the necessary cash capital on hand before they made the \$10 billions loans and investments, the return of their alleged payments back to them obviously provided them with a corresponding increase in either their cash or capital resources. Unfortunately, however, they did not record either on their books, nor did they disclose or report any cash or capital increases in their published statements. It should be clearly understood that all these unreported capital resources of the banks were built up from the cancellation of deposits, and from reductions in their outstandings or circulation. Furthermore, the cash resources realized from the liquidation of investment and loan holdings previously disposed of, were really retained by the banks and went to build up their hidden resources, and were never paid out as the banks claim or as their books would indicate.

In other words, when the banks collected loan repayments they got a double consideration (1) they got the proceeds of the repayments and (2) they got a reduction in their deposit liabilities. As these repayment collections were not a replacement of either cash or capital, it gave them a cash or capital increase for the full total of the loan repayments involved. These valuable cash or capital accretions should have been recorded on their books and reported in their statements, and furthermore, they should have been turned over to the government. This is essential to sustain our economy and provide public funds to repay the double indebtedness incurred by the government in the course of its bank financing. Moreover, by doing as they did, the banks grossly manipulated the volume of funds available in Canada for public and private debt repayments and for meeting the inflated cost of living—all to the great loss and damage of the Canadian people.

Now these are the hidden cash or capital resources of the banks that you must order be included in their accounts and statements, and this is the cash or capital that you must order be turned over by the banks to the government as proposed and disclosed by us, for the common good.

Let me now tell you how easily the banks can pay this \$10 billions over to us; all without any cost to themselves; they must first of all provide us with statements setting forth their true financial condition. To do this, they must set an entry up on their books and statements to the credit of capital resources accounts, in order to record the capital accretions I have disclosed. Then, not having any of their deposit receipts on hand, and to offset the foregoing capital entries, they should record on the asset side of their statements an entry to cash overdraft or deficit account. Having thus corrected their statements, all that will then be needed is for them to send us certified cashier's cheques, one from each bank, for its proportionate share, aggregating in all the total specified. These cashier's cheques should be certified and charged against the added capital amounts. To offset this charge, they would credit their outstandings.

These certified cashier's cheques would be treated and handled as money, and should be accepted by the government as refunds of over-payments previously made to the banks and over-charges made by the banks against governmental accounts, on their books. The government would then enter this bank cheque currency as cash on hand and credit the amounts to its consolidated deficit account, thus wiping the deficit out completely and giving it a perpetual surplus instead. It would then deposit the cheque currency in the banks, who would in turn accept it as cash money. They would credit the governmental checking accounts, and would enter the deposits as cash collections and hold the cheque currency as cash assets.

The depleted cash accounts of the banks having been in this manner replenished, and their outstanding cheques having been retrieved and the capital gains having been turned over to the government, the banks would close out the correcting entries with credits to overdraft accounts and debits to outstandings.

This would complete the entries and cash transfers to the government, and would leave the banks with cash assets totalling \$10 billions, thus increasing their total assets to double the totals now reported. The added governmental checking accounts would likewise increase their deposit liabilities by \$10 billions, to offset their increased assets.

In this simple manner the government would on behalf of the public, become enriched by \$10 billions at no cost to the banks and at no expense to the government or public—truly a financial miracle. All this and more can be done by you members of this Committee simply by ordering it to be done—it's that easy. I hope you will therefor see it all in the light of our findings and disclosures and proposals. I hope too, that my brief now becomes clear to you. I am prepared to answer any questions you might wish to know here-inregard and furnish any further information you may wish.

Explanatory Statement No. 2 of Frank O'Hearn

In the annual report of the Provincial Bank of Canada issued to its shareholders in meeting on January 13th, 1954, there appears the address of the President to the shareholders. In this report the President states in detail the amazing and complicated process by means of which the chartered banks have already gotten over \$10 billions in securities from their customers, including the government, through the use of less than one-tenth of this total in bank scrip. This brazen admission in public print, even before it was confirmed by testimony from witnesses before this Committee, is almost incomprehensible. The failure of the Canadian people to recognize its implications is even more incomprehensible—that's why I bring it up now in support of my previous statements to you.

The bank president however, did not go quite far enough in his explanations. He failed to also state that inasmuch as the scrip employed by the banks to get their security holdings has long since been returned to them as a clear profit from these overdraft operations, the banks actually got all their present holdings without paying out any cash for them whatsoever. This means that they got \$10 billions of securities from the government and people of Canada absolutely free. This was done and was only possible through the tricky means detailed in the said bank report.

The bank president, moreover, miserably omitted to tell his shareholders that his bank and the other chartered banks failed to disclose this fantastic condition in their financial statements. They did not disclose the amount of cash or capital accretions accruing to them as a result of getting their present holdings free of cost to themselves.

He further omitted to tell his shareholders that the chartered banks have already disposed of a like amount of matured securities for valuable consideration, and that in the process of doing so, they got in addition to their present security holdings, a \$10 billions increase in their cash or capital resources. And, to add insult to injury, the banks failed to disclose these additional cash or capital accretions in their books or statements.

This disclosure obviously and undeniably confirms the disclosures made in my previous statements to you, and only goes to show more clearly just why you should now order the banks to correct this disastrous condition—to furnish corrected statements and to render an accounting of their unreported cash or capital resources, and to turn all this concealed cash or capital over to the government, where it clearly belongs in trust for the Canadian people.

Explanatory Statement No. 3 of Frank O'Hearn.

We have considered the methods employed by the Chartered Banks in dealing with loan repayments collected from depositors, particularly with reference to collections from customers who are in the dual position of being both borrowers and depositors at one and the same time.

In his testimony before this Committee, Mr. Towers stated that when the government repays a loan or redeems its bonds "it pays the full contractual obligation", i.e., it redeems its bonds from the banks at par.

Mr. Towers stated further that "the government would take money from its bank accounts to redeem its securities".

Despite these statements, however, Mr. Towers also made the amazing and contradictory statement that as a result of such government redemption of securities, "the bank's assets would go down", by the amount of such repayments.

Now Gentlemen, I suggest that when the banks cash in their security holdings, whether they be public or private securities, their assets could not possibly show a decrease as Mr. Towers says they do report. True, their security holdings would go down but obviously, their money holdings would go up, leaving their total assets unchanged as a result of such security redemption or loan repayments.

I further suggest that because the banks report decreases in the total amount of their assets for every one of their loan repayments or security redemptions, they misrepresented and misreported their repayment transactions, and grossly deflated their asset totals. Furthermore, that this deflation took the form of a depletion of the cash portion of their assets.

As the banks all failed to report any such repayment moneys as being on hand, obviously, to report the true totals of the assets for which they must render an accounting, they should have recorded deficits or overdrafts in their cash assets for the total amounts of all their loan repayments involved, up to \$10 billions.

A number of problems therefor immediately arise for consideration by this Committee; 1—to get statements from the banks showing the totals of all loans and securities they cashed in at maturity, and statements showing the true totals of their assets after collection of such repayments; 2—to get full reports from the banks of what they did with all the moneys collected by them through such repayments, particularly the moneys which Mr. Towers stated was taken by the government from its bank accounts and paid over to the banks to redeem government securities; 3—to take the necessary action to have the banks put back all the repayment moneys collected from us, so that existing Statutes may be complied with.

Obviously, these matters should be all cleaned up and corrected before renewal of the banking charters are even considered. It seems to me that the duty of this Committee is clearly indicated hereinregard.

Explanatory Statement No. 4 of Frank O'Hearn

With further reference to the methods employed by the banks in reporting and recording loan repayments collected from depositing customers, we find as follows:

Mr. Towers, in his testimony before this Committee, stated that when a customer repays a loan or redeems a bond, such as the government does, "the bank's liabilities go down", that is they show a decrease in liabilities and "would have less liabilities" after and as a result of cashing-in its loans. Mr. Towers stated furthermore that "such reduction in liabilities would have an effect on the quantity of money in existence", i.e., our money supply is deflated every time a bank collects in a loan repayment.

I put it straight up to you Members of this Committee—Is it common horse-sense to let the banks deflate our money supply every time they cash in a loan or liquidate a security? Is not that procedure a breach of the Bank Act and other Statutes governing the banks, as they now are enacted, even before any revision?

Let me explain this matter in further detail as follows; when a borrowing customer deposits money in a bank to meet a maturing loan, whether public or private loans, such as Mr. Towers referred to in his testimony and such as is set out in the personal loans submission made by the Canadian Bank of Commerce, that customer immediately assumes a dual position in his relations with the bank; he is both a debtor and creditor of the bank at one and the same time, i.e., he owes money to the bank in connection with his loan, and the bank owes him money in connection with his deposit.

Upon actual repayment of the loan, two cash amounts are then covered by the one bank balance; 1—the money the customer claims to have paid to the banks, and 2—the money the banks claim to have paid to the borrowing customer. Both of these cash payments are duly recorded in the banks records. The latter payment is the "in effect" payment described by banking and Finance Department officials and mentioned in my brief. It amounts to a cash refund to the customers to take the place of the loan payments previously charged off against his account, when the banks replaced the loan credit on their books with a deposit credit in favor of an altogether different customer. The bank however, does not permit this extra credit to remain in the customers account—both credits are written off in the charge made against the customer.

It is in this manner that the bank is enabled to get a reduction in the deposit liabilities, as stated by Mr. Towers. And it is this reduction in liabilities—this extraconsideration to the banks upon collection of loan repayments from borrowing customers—that provides the bank with the capital accretions I have already spoken of. Obviously, as the bank liabilities went down, their capital resources went up. Unfortunately, the banks omitted to disclose their capital accretions.

This is the unreported banking capital which should now be set up on their books and reported in their statements, and this is the available banking capital which should now be turned over to the government, to whom it really belongs, in the manner I have suggested. That's why I say it is up to this Committee to get a cash settlement to date from the banks before any charter renewals are extended to them.

Explanatory statement No. 5 of Frank O'Hearn

We have made an examination of the financial statements put out by the Chartered Banks for 1943, and find that the banks held at that time various investment securities, loan collateral, bank scrip and other assets to a total of \$5.1 billions. We also find that the amount of moneys they had received on deposit as at that date totalled \$4.6 billions.

Through our investigations we fortunately, uncovered the fact that in reporting their deposits, the banks resorted to an unorthodox, otherwise unknown and illegal method of lumping their deposit assets in with their deposit liabilities, and reporting them all as liabilities under the heading of "deposits". In this deceptive manner they concealed from the Authorities and general public approximately one-half of their total resources.

The deposit assets should of course, have been segregated and reported separately on the asset side of their statements, as called for by Schedule "L" under Assets, Section No. 32 set out in the Bank Act. (See footnote).

With this new informatin to hand, it is quite apparent that the total resources of the banks in 1944 amounted to \$9.7 billions, and not only \$5.1 billions as reported and accepted as correct by the Banking and Commerce Committee at that time. This shows how the Committee was deceived by the bankers and government officials then, and explains why they are at this time again deceiving you gentlemen.

We also examined the statements issued by the banks at December 31, 1953, (10 years later) and find that the banks held at that date securities, collateral, scrip, etc., to a total of \$10.7 billions, and that deposite received totalled \$10.2 billions.

From the foregoing official statistics, it is evident that the banks commenced 1944 with total resources of \$9.7 billions, and that in the intervening years they got additional investment and deposit assets of \$11.2 billions. This makes their total resources at the first of this year \$20.9 billions.

But, the statements published by the banks report total assets at December 31, 1953 as being only \$10.7 billions. Obviously, they understated the total assets available to them by \$10.2 billions, aside from any of their collections from loan repayments to date. These unreported assets we find, consisted of cash amounts, and in lieu of this cash, they should have reported in their statements cash overdrafts to disclose their true financial condition as required by the Bank Act. Moreover, with total resources of \$20.9 billions and deposit liabilities of only \$10.7, it is quite evident that the capital resources available to the banks really totalled \$10.2 billions more at the first of this year than the amounts shown in their statements, and reported by them under the Bank Act.

A number of questions naturally arise from consideration of the foregoing compilations, viz., A—who issued all the extra money—all the extra cash or capital—collected in by the banks from depositors and borrowers during the said 10 year period? and before that time too? B—By what legal Authority did they issue these extra funds? C—How much extra did the banks collect from loan repayments to date? D—Where are all these extra amounts at the present time? E—We find that the issue of extra paper money is a costless procedure and that a clear 100 per cent profit accrues thereto, and in view of this information the question arises, where are all these profits at the present time? We noted all these matters and have reported thereon to you in the other statements we have submitted for your consideration.

(This Schedule "L" of the Bank Act should have contained a separate clause calling specifically for report of all moneys collected from Depositors or borrowers and should be so amended in the revision Bill now under consideration.)

In the public interest, therefor, the banks should now be called upon by you to furnish corrected financial statements to this Committee, and to the government, the depositors, shareholders and general public. The hidden resources which would be disclosed by such corrected statements should be we suggest, now appropriated and taken over by the Public Treasury for the common good.

Explanatory Statement No. 6 of Frank O'Hearn

We have given consideration to the operating methods of the Chartered Banks and the Bank of Canada in relation to the public debt. In our investigations we find that the debt of all government departments, including the Federal, Provincial and Municipal governments, which is presently outstanding unpaid totals some \$18 billions.

We find also that the money proceeds of these public securities plus the proceeds of a huge amount of private and corporation debt also financed through the banks, totals in terms of deposits and outstanding circulation, only \$11 billions. After allowing for the billions paid to the banks by the government to take up matured loans and the billions of corporation and private funds deposited in the banks, it would appear that the amount of bank funds now available which might be regarded as the proceeds of the \$18 billions in unpaid public securities, is short at least some \$12 billions. In other words, the government debts incurred through its banks financing totalled twice as much as the total outstanding bank deposits resulting therefrom.

This intolerable condition would have been avoided had the government got a double spending through its bank financing, (1)—a spending of the borrowings, and (2) the spending of the cheque money it issued as a bank customer. Moreover, had the government got the full spending it was entitled to, its bond sales or its tax collections would have totalled some \$12 billions less than they actually totalled.

From consideration of the foregoing, the amazing fact is clearly revealed that same \$12 billions of proceeds of government bond sales still remain unaccounted for. This means in other words, that some \$12 billions in bond moneys has disappeared, or that the banks got \$12 billions in government securities free-for nothing, for obviously nobody but the banks could have done so. The complicated process by means of which they accomplished this brazen swindle has been disclosed by us in our prior statements and brief to this Committee.

Obviously, additional funds totalling \$12 billions is now required by the government in order to balance its accounts, and balance our national economy too.

This further disclosure only goes to confirm our previous disclosures. It gives still further reason why this Committee should forthwith on behalf of the Canadian people, order the banks to turn over their hidden cash or capital resources to the government, and furnish proper statements of their actual financial condition, both before and after effecting a cash settlement of their overdraft operations to date.

Explanatory statement No. 7 of Frank O'Hearn.

In conducting our investigations into the source of money issue in Canada, we found a great deal of misconception hereinregard, on the part of banking and government officials and the general public alike. Some even claim that no money is used at all in Canada, only bank scrip; others claim that the banks issue our money into circulation in the first instance, and others claim that it's the government that does. Some state that the government deposits the money

in the banks; others state that the bank deposit the money in the customers accounts. We find however, that all of these impressions are incorrect.

Our investigations disclose strange to relate, that all of the real money issued in Canada was in the first instance issued into circulation for value received by the customers of the banks—not by the banks or the government as such. Included amongst the bank customers are the governments of course, and hence the governments too, as bank customers but not in their governmental capacity, issued money into exchange for value received, just in the same manner as the other bank customers, only in greater amounts.

Moreover, we find that all our money was issued by these bank customers in the form of bank cheques and bank scrip. After this cheque money and scrip money was accepted as currency in exchange and acquired an exchange value, the holders duly deposited all of it in the banks or paid it over to the banks as loan repayments, etc. In this manner, the holders became bank customers too.

There are a number of problems which arise in connection with the issue of money by the banking customers in the foregoing manner. In the first place it was all done illegally, as the Bank Act prohibited the issue of cheques by anyone to be circulated or used as money—but there was no other money available to the public for their requirements, and as the bank scrip isn't money what else could they have done? particularly, as the government failed to exercise its prerogative to issue money, which of course, they should have done in the public interest.

Secondly; the effect of issuing money as disclosed was just the same as if the bank customers, including the governments, actually printed and issued paper money into circulation, instead of the cheques and scrip they used.

Therefore, through their bank borrowing transactions, the bank customers were inveigled into issuing cheque currency into circulation to the total of more than \$20 billions. The holders duly deposited all this money in the banks, and subsequently they paid \$10 billions thereof to the banks to retire the loan debts incurred through their banking transactions. The banks then through their tricky practices, instead of safeguarding their cash collections, did away with this \$10 billions. They took it all out of circulation, deflated their deposit liabilities; concealed their cash deficits and the capital accretions accruing therefrom. Up to the present moment none of this money has ever been replaced.

I ask you therefor, should customers paper or bank scrip which has once been used as money in exchange be later done away with? Particularly so when the debt obligations through the financing of which the money became originally issued, still remain outstanding unpaid? Is this invalidation of hard-earned money and deflation of bank funds representing half of the entire cash savings of the Canadian people, legal?

The answers to these questions is clearly indicated. The question now is, what are you members of the Banking Committee going to do about all this? You know what our proposals are hereinregard.

Explanatory Statement No. 8 of Frank O'Hearn

In the course of our investigation of our financial system as it is being presently operated, we find certain basic or fundamental characteristics as follows:

Our financial system is characterized by a perpetual governmental deficit. The government issued bonds and other securities against this perpetual deficit. In the course of its banking transactions, the government indebted itself to the banks and the public for double the amount of proceeds of the debts as indicated by bank deposits.

With reference to the banking section of our financial system, the banks strangely enough, do not show any money assets in their statements. Neither do they report any cash overdrafts on their statements. Their statements would indicate that there is no money being used in our financial system whatsoever, which of course, is not in accord with the facts as we report elsewhere. Because the banks report deposits, however, it might be taken to indicate that the deposit moneys are now outstanding in circulation, but this too, is not in accord with the facts.

Because the banks have no money on hand and there is none outstanding in circulation, only bank scrip, it might appear that no money was ever actually issued, but the fact that the banks report deposits indicates that money was actually issued. Obviously, there must have been money placed on deposit with them or they would not report any deposits as they do.

As the banks don't issue any money themselves, only scrip, and as the government as such doesn't issue any money either, it's only too clear that the money used in our financial system and placed on deposit or turned over to the banks must have come from an outside source. Hence it is that we report that all the money used in our financial system came directly from the bank customers. These customers actually issued paper money in exchange for value received and this money was in turn paid over to or deposited with the banks by the holders thereof.

Hence it is too that because the banks don't report this money on hand, or report cash overdrafts because it isn't on hand, the banking assets reported by the banks are but half of the total which should be reported. Furthermore, because the bank assets have been improperly deflated, the real excess of bank assets over the liabilities they report is concealed. And because if this concealment, the huge banking surplus capital accruing to them from their overdraft operations is concealed too.

This picture of our financial system does not of course, appear at all sound, nor is it. It is therefor now in order to take all the steps necessary to place our government in a sound position; to wipe out its perpetual deficit and provide it with a perpetual surplus; to get the concealed deposit moneys and concealed banking capital properly recorded and capitalized, and to put our entire financial system on a real cash basis for the common good.

We have suggested various ways in which this may be done—we can insist upon a cash settlement to date from the banks, or the government itself could issue its own paper money and place it on deposit with the banks in exchange for bank funds, or issue it directly into exchange for debt repayments and spendings for other governmental requirements. The main thing however, is to forthwith place banking and our financial system on a sound basis and in a workable condition. This is essential to our entire economy.

Explanatory Statement No. 9 of Frank O'Hearn

Having given exhaustive consideration to the financial statements of the banks and having reported to this Committee as per our brief and the preceding statements herein, it should be noted as follows:

1—Generally speaking, we are not disputing the accuracy of the banking figures set forth in the balance sheets, excepting the asset and liability totals shown;

2—We do however, emphatically dispute the improper arrangement of the figures as shown in the financial statements. The arrangement presented by the bankers does not show the true financial condition of the banks—rather it conceals half of their financial resources and prevents their use as funds for the public and governmental requirements.

3—We have discovered and reported that the deposit assets of the banks are lumped in with their deposit liabilities, and are misreported on the liability side of their statements as deposit liabilities only—this method of reporting their financial standing is grossly deceptive.

4—In order to show their true financial standing, the deposit assets of the banks must now be unscrambled from their deposit liabilities—the deposits must go to increase their total assets or the total of their capital resources—either one or the other, or both. Moreover, cash overdrafts should be recorded on the asset side of their statements to show the lack of their cash collections from deposits or loan repayments.

5—When these proposed revisions are given effect the banking assets and liabilities too, will show double the totals they now report, and the true resources will be doubled too—all to the great advantage of the banks, the governments, and the public alike.

Explanatory Statement No. 10 of Frank O'Hearn

In the course of our financial investigations we necessarily had to give exhaustive consideration to the government's financial balance sheet as well as of its methods of financing. In connection therewith we disclose as follows:

A—Generally speaking, we don't dispute the accuracy of the figures reported by the Finance Department;

B—We do however, emphatically dispute the accuracy of the government's claim to an accumulated deficit of some \$10 billions, as shown in its balance sheet;

C—Consideration of the governmental balance sheet indicates that apparently it issued \$10 billions in bonds, etc., against its alleged deficit;

D—Their procedure of issuing bonds against deficits indicates in other words, that the Finance Department issued government bonds to certain holders thereof free-for nothing, and that the government got no payment or other assets or valuable consideration of any kind for them;

E—Our other reports to this Committee disclose that the over-issued free bonds were turned over to the banks without any consideration in exchange, to the great loss of the Canadian people in general;

F—We note that the banks still hold one-half of these free bonds, and also that the other half were redeemed by the Finance Department with funds collected from the public through taxation or public bond sales;

G—To correct this deplorable and disastrous situation, the government obviously should take back the \$5 billions free bonds now held by the banks free of charge, and it also should be a credit to its checking accounts from the banks for the balance, aggregating \$12 billions in all. Other acceptable alternatives have been outlined by us.

H—By giving effect to our findings and our proposals for cash settlements with the banks, the government's imaginary perpetual deficit could be wiped out and a perpetual surplus provided instead, placing it in a sound and solvent condition.

These things are obviously essential to support the government's claim that it is a sound, democratic government, and that Canada is a free nation—otherwise, such claims are unfounded.

Explanatory Statement No. 11 of Frank O'Hearn

In connection with the total amount of our money supplies in Canada we feel called upon to refer to the illegal manipulation thereof by our Canadian banks and further explanation of this matter we would point out as follows:

(A) Every time the banks deflated our total money supplies by cancelling deposits they simultaneously enhanced their own capital resources. They failed to record or disclose their capital accretions and by concealing them they prevented us replenishing our money supplies to our great loss and damage. In other words, the hidden capital resources of the banks referred to in our brief were built up from cancelled deposits.

(B) Each time our total money supplies were inflated by banking customers, as disclosed by us, the increased amounts were duly deposited with the banks by the holders. The banks then unlawfully used these increased cash deposits to replace investment deposits they cancelled from other customers accounts. This cancellation of bank investment deposits automatically increased their capital resources but they failed to disclose their capital accretions and prevented us from using them to rebuilt our money supplies. In other words, the hidden capital resources of the banks were also built up from their cancelled investment and loan deposits as well as from the cancelled cash deposits.

As a result of these banking manipulations of our money supplies, we are left in perpetual and expanding public and private debt, and interest charges too. Worse still, we dare not materially reduce our banking indebtedness as to do so would drag down our entire economy. The banks have left both debtors and creditors in an embarrassing and intolerable position and have also made it impossible for producers to recover their costs and buyers to meet the high prices of living.

Everybody is victimized and penalized by these evil manipulations of our money supplies and the other unlawful operations of the banks as they are now conducted.

Explanatory Statement No. 12 of Frank O'Hearn

The existing Bank Act requires the bankers to report true statements of their financial condition and in order for them to comply with the law here's what we feel they should now do—here's what they should now tell the world and what we would do were we bank executives:—we would make a report to the government, the shareholders and depositors and general public along the following lines:—

"We the banking executives report that as a result of investigations conducted by the Office of Valuation and Exchange of Toronto, Mr. Frank O'Hearn, Director of Research, we now learn that from every deposit heretofore cancelled by us and from every reduction in our outstandings or circulation, there accrued to us a corresponding increase in our cash or capital resources. The reason for this being, according to the information furnished us, that those cancellations and reductions did not provide us with any cash or capital replacements whatsoever, as may have heretofore been inferred. Hence, they obviously provided an increase in our capital resources.

Up until now it has never been the custom for banks to report or take up such capital accretions and it is to do so at the present time that we now make these reports.

The total capital resources now to be reported by all banks in Canada aggregates some \$12 billions—the amount being reported by our particular bank aggregates sum of \$————.

We further learn from the same sources, that from loan repayments collected by us in the past, our cash resources should have shown a corresponding increase to replace the loan collateral given up. In this respect it has been the banking custom to report a reduction in deposit liabilities to offset the loan collateral disposed of. As however such deposit reductions are now being

used to increase our capital resources as hereinbefore set forth, it becomes necessary to report increases in our cash resources instead. To give effect to this requires that our cash resources be actually replenished to cover what appears at the moment to be an overdraft therein.

Hence it is that to comply with existing laws and to replenish our cash and capital resources, we now make these reports.

We bankers do not lay any claim to these newly found resources and propose therefor to turn them over forthwith to the Government of Canada in the public interest. We are therefor now delivering certified cashier cheques to the government to complete this transfer. We furthermore agree that upon redeposit of these cheques with us by the Government, we will accept them and carry them as valid cash assets and will honor such government deposits, either as checking deposits for the full totals or partly as checking deposits and partly by free return of governmental securities now held by us, whichever the government deems preferable. The aggregate of such deposits or security returns total \$12 billions for all banks—the amount for our bank totals some \$_____.

In view of this unprecedented action on our part, it is obvious that all future cancellations of investment deposits will become merely a replacement of cash and capital resources and will not require any further adjustments or settlements of a similar nature, particularly so long as our cash and capital resources exceed our total deposit and circulation liabilities.

We are very happy to effect this cash settlement of our past overdraft operations particularly as our payments to the Government wipes out its hitherto perpetual deficit and provides it with a perpetual surplus instead. This placing of our government in a sound and solvent condition will obviously bring about many advantages and benefits to it and the Canadian people heretofore not available.

Hence this report and payments are made by us bankers to comply with existing laws and to place our entire economy on a much sounder and stronger financial basis”.

The foregoing formulae is part of our plans, specifications and formulae which we are hoping you parliamentary representatives will authorize the government to purchase from us at a price commensurate with their obvious value, and it is this way of ours that we hope you will use to place Canada in an unassailable financial condition in the public interest.

APPENDIX "C"

Being a Brief Submitted by
Mr. E. S. WOODWARD OF VANCOUVER

SUBMISSION TO BANKING AND COMMERCE COMMITTEE, 1954
PARLIAMENT BUILDINGS, OTTAWA.

By: E. S. WOODWARD.

Gentlemen:

The purpose of this brief is:

1. To urge the adoption of a dollar stabilization policy, so that there may be an unvarying standard of price and accountancy.
2. To propose means to that end.
3. To suggest some of the changes involved affecting the Canadian way of life.
4. To examine some of the barriers to price stability.
5. To advocate a number of co-related reforms necessary to the growth of a free society of self-dependent men.

The matters herein discussed may have moral and spiritual aspects paramount to the economic. The writer does not underestimate them. He deems it desirable however, in a brief addressed to the Banking and Commerce Committee, to develop their economic aspects only.

Stable Dollar Generally Approved.

Most people approve the idea of a stable, standardized dollar, just as they approve a standardized yard, gallon, or pound weight. They may, or may not, approve the means necessary to the end. The end itself is well-nigh non-controversial.

Importance of Stable Dollar Not Generally Recognized.

The importance to economic life of a standardized dollar is not generally recognized. Variable weights and measures would excite public resentment, and their use would be self-evident fraud. But a variable measure or standard of value excites little or no resentment. The fraud involved in its use is, strangely enough, not self-evident.

It is true that rise in living costs creates resentment. It is also true that rise in living costs is caused by use of watered dollars. But to most people, the connection between the two is not self-evident.

Dollar Stability the Most Important Single Problem of Our Age.

Sir Josiah Stamp showed clear discernment when he said: "When I have said quite seriously, as I have on a number of occasions, that the problem of the price level is the most important single problem of our age, I have been accused either of exaggeration or flippancy. 'What about trade depression, unemployment, labour unrest, class hatred, high taxation, and the rest?' My answer is that the problem of the price level IS FUNDAMENTAL TO A SOLUTION OF THEM ALL."

Trade Depression and Currency Contraction.

Currency contraction, by which the cost of living falls and dollars rise in value, has been a marked feature of all depressions. It would be an oversimplification to say that depressions are caused by currency contraction.

There are other contributory factors. But over-simplifications are useful because they stress dominant truths. It is difficult indeed to conceive of depression, unemployment, and industrial stagnation in a society enjoying the normal volume of currency, circulating at the normal rate.

*Labour Unrest and Currency Variations.
The Deflationary Thirties*

Labour unrest reached alarming and dangerous proportions during the depression of the early thirties, when dollars were dear and labour cheap. Yet deflation was not accidental, and its consequences were foreseen. Deflation became official policy. Deflationists believed that their policy was necessary, and they regarded adverse consequences as deplorable but wholesome. Their point of view was stated by Professor Kemmerer as follows:

"Deflation is a painful economic process. By raising the value of the monetary unit in which debts are expressed, it places unjust burdens upon many debtors to the advantage of creditors. It depresses business and tends to reduce the demand for labour, thereby increasing unemployment, forcing down wages, and causing labour troubles. **DESPITE THESE EVILS WORLD DEFLATION IS ABSOLUTELY NECESSARY THE EXISTING GOLD BASE IS ALTOGETHER INADEQUATE SAFELY TO SUPPORT THE PRESENT PAPER MONEY AND DEPOSIT CURRENCY AT A PARITY WITH EXISTING GOLD MONETARY UNITS IN A FREE GOLD MARKET.**"

The Inflationary Forties.

But labour unrest has continued unabated during wartime and post-war periods of dear labour and cheap dollars. The rising cost of living has provoked continual contention between Capital and Labour, and has been the cause of more strikes and employer-employee disputes than in any previous decade. Industrial strife is the inevitable consequence of inflation. Dollar stability is the only possible basis for improved industrial relations.

Victims of Dollar Changes Helpless to Protect Themselves.

When dollars are scarce and dear, the cost of living falls. Unjust burdens are placed upon debtors to the advantage of creditors, but there is nothing they can do about it. National debts are increased to the disadvantage of taxpayers, but there is nothing that taxpayers can do about it. Markets are destroyed by the lack of consumer spending, but there is nothing the manufacturer can do about it except to curtail operations, lay off men, and watch plant and equipment deteriorate.

When dollars are plentiful and cheap, the cost of living rises. Creditors are victimized to the advantage of debtors. The fixed incomes of mortgages, bondholders, old age pensioners, are automatically reduced. Terms of all money contracts are falsified without recourse by either party. Books of accountancy are falsified. In terms of cheaper dollars, prices of tangible assets rise. Speculators reap fortunes at producer expense. When few get something for nothing, many get nothing for something.

Dollar Instability and the Welfare State.

Connection between dollar instability and economic inequity has been demonstrated, and connection between economic inequity and economic distress can be logically inferred. State handouts can only be justified by need. By giving handouts, the State concedes the need. Payment of so-called family allowances is confession by government that young family men, at peak of their physical and mental powers, are unable to carry their normal responsibilities. Price support programs are also confession by government that farmers and other producers, are unable to thrive in the economic climate prevailing.

Similarly, State-aided housing schemes are confession that buliders can no longer collect, and the people can no longer pay, economic rents for living accommodation.

State Charity Perpetuates the Causes of Economic Distress.

Quite obviously, State charity—whether disbursed in family allowances to the young and able, or in sustentation donations to farmers, or in below-cost housing to specially privileged tenants—does nothing to remove causes of economic inequity and distress. By ignoring causes and by tinkering only with symptoms, the charity-welfare State perpetuates fundamental wrongs.

Not so obvious is the fact that charity *aggravates* distress. By diverting hundreds of millions from the productive system, it must of necessity reduce the sum total of wealth, the aggregate of wages, and the volume of consumer purchasing power. Psychologically, the aggravation is equally serious. By imposing heavy tax burdens on the productive system adequate to support charity-welfare commitments, the State weakens incentive to produce. And by disbursing claims to wealth to men who have done nothing to earn them, it gives more incentive to live without producing.

"Fighting Inflation" a Misuse of Terms

So long as inflation is practised, price controls can divert but not avert the consequences. Dammed in some directions, watered money will gush in others. Talk of "fighting inflation" is based on misconception of the nature of inflation. Inflation can be continued, or discontinued. It can be practised, or not practised. But so long as it is practised, users of money can do nothing to avert it or its consequences.

Stabilization Involves Fiscal Change.

Dollar stabilization involves one slight but far reaching fiscal change. The government could no longer practise deficit spending and thereby create money by living beyond its means. It could do no other than adhere to a pay-as-you-earn policy. It could still sell bonds to savings banks or to the public. But an issue of bonds would not, directly or indirectly, increase the volume of money.

Stabilization Involves Banking Change.

Principal change in banking practise would be complete separation of the Currency or Current Account Department from the Investment or Savings Account Department. The *Currency Department* would create new money to monetize new goods through the productive-distributive process. It would also service all on-demand checking accounts. It could not create new money to make capital loans, accommodation loans, or government loans. The *Investment Department* would receive time deposits for investment, make capital and accommodation loans, buy and sell securities and lend to the Government. Its only source of funds would be the savings of the Canadian people. THE PROPOSED CHANGE STRICTLY ACCORDS WITH THE ECONOMIC FACTS OF CAPITAL FORMATION. Incidentally, this brief takes the view that the Canadian Banking System is among the best in the world.

The Criterion of Value.

The criterion of value would continue to be, as it now is, the Cost-of-Living Index, or the National Index of Prices. The dollar would be kept stable in terms of the Index, by means hereinafter to be outlined.

Principles of Stabilization Stated.

Money issued must be of the right kind, in the right quantity, for the right purpose, to the right people.

Of the Right Kind. It must be a circulating currency, immune to hoarding or diversion. It must be an accurate standard of price and accountancy. It must be a catalyst of consumer goods in course of production and distribution. And it must be cancelled when its equivalent in goods has been consumed.

In the Right Quantity. It must be created against new consumer goods and must equate consumer goods at the existing price level. No limit to the creation of money except the used productive-distributive capacity of industry.

For the Right Purpose. To monetize current production of consumer goods and not otherwise. Every dollar to have its coverage in products. Every product to have its coverage in currency.

To the Right People. i.e. to producers and distributors of consumer goods, and to nobody else.

This brief submits that if money cannot be diverted from circulation, if the supply of money is at all times adequate, if it is created only for the purpose of monetizing current production, and if it is issued only to producers and distributors of consumer goods, then a firm foundation is laid for a standardized currency stable in terms of the cost of living index.

Necessity for a Streamlined Circulating Currency

One chief defect of money hitherto used has been its susceptibility to conflicting and mutually incompatible uses. It could be used as a medium of exchange—a use that it could only serve so long as it remained in circulation. Or it could be used as a store of value or an instrument of saving—a use it could only serve if taken out of circulation.

Gold Defective as Circulating Medium

As a circulating medium, gold was and is more defective than any other form of money. As an instrument of saving or storing value, it is one of the best. The very qualities that make it attractive to men seeking to set aside a reserve for life's contingencies, are the qualities that disqualify it from ever becoming a satisfactory medium of exchange for goods that require prompt marketing.

A Free Market for Gold

Gold may be likened to a storage warehouse, and a circulating medium to a rapid transit system. Gold, like a storage warehouse, has a specific use i.e. to store for future use. But a circulating medium, like a rapid transit system, has a specific use of a different kind. Its job is to collect and deliver—as soon as possible. Each is adapted to its specific use. Neither can take the place of the other. When used as money, gold tends to be “sticky”. When money is used for storage, collection and distribution of goods is frustrated.

This brief urges: 1. A free market for gold. 2. Abolition of government restrictions on its production, distribution, and private ownership. 3. Abolition of government subsidies. 4. Complete divorce of gold from the monetary system.

How to Streamline the Currency

While the propensity to hoard paper currency is not as strong as the propensity to hoard gold, there is nothing to prevent it being hoarded. Hoarding incurs no penalty or other deterrent. Consequently, at any given time, there are large quantities lying idle or lying dormant in demand bank deposits. It is axiomatic that idle money represents idle men and idle goods. To ensure active circulation of currency, and prompt collection and delivery of the goods represented by the currency, it is necessary to devise an effective anti-hoarding mechanism or technique.

Demurrage as Anti-Hoarding Device

The device here suggested is "demurrage", the same device that is used by railway companies to prevent their rapid-transit equipment from being used for storage purposes; by dock and harbour authorities to ensure prompt loading and unloading of vessels; and by baggage rooms to prevent congestion of their space by dilatory passengers. When applied to money, demurrage takes the form of a time charge. It can be levied on coins by occasional remintings subject to a reminting charge; on currency notes by dating them and printing on them the scale of demurrage charges; and on chequing accounts and on demand deposits by a small debit charge. Many appropriate techniques have been devised. The immediate concern of this brief is to secure for the principle the attention it deserves as one of many steps necessary to stabilize the currency, and ensure continuity of the productive-distributive system, at its maximum capacity—at least so far as the system is dependent on an efficient monetary and banking system.

The Rate of Demurrage

The rate of demurrage proposed by Silvio Gesell in his *Natural Economic Order*, was one mill a week, or 5.2% a year. Others have proposed $\frac{1}{4}$ of 1% a month, or 3% a year. Others, seeking to collect public revenue by a device that stimulates production, have proposed 1% a month. Three per cent a year would suffice to ensure free circulation, and is here proposed as probably the most appropriate for Canadian conditions.

Simple Change! Far Reaching Consequences!

The simple expedient of attaching demurrage to currency, i.e. coins, notes and demand account balances, may reasonably be expected to have far reaching consequences.

1. Demurrage would act as a counter-interest or negative-interest influence. Demurrage at 3% would tend to reduce prevailing interest rates by 3%. Demurrage at 4% would tend to reduce them by 4%. This reduction would first express itself in new money-lending transactions. It would later find expression in interest rates of durable capital.

2. A subtle but profound change in the economic system! While investment income as a total would likely be maintained by reason of the anticipated increase in wealth production, as a ratio with earned income it would probably decline. **WAGES WOULD RISE BOTH AS AN AGGREGATE AND AS A PROPORTION OF THE JOINT CAPITAL-LABOUR PRODUCT.**

3. Lower interest rates would permit advantageous refunding of public and private debts. The burden of Dominion, Provincial and Municipal debts would be lifted. Mortgage loan contracts would cease to be burdensome to the majority of home-owners.

4. Lower interest rates and more constant circulation of money may be expected to encourage industrial development in step with technological progress. More wealth! Increased demand for labour and skill! More self-dependence among men!

5. Included in (4) above, but worthy of special mention, would be the first step in the restoration to health of the building industry, which has been victimized more than most industries by government repression. The building tax is one of the few capital taxes in our fiscal structure. The building industry has been one of the few not permitted to recover costs from prices by reason of rent controls. It will come as tonic to the building industry to have interest on building loans reduced by 3 per cent. That represents a reduction of \$25.00 a month on a \$10,000.00 house.

The above are suggestive of the changes reasonably to be expected from the use of currency immunized against interest, and geared to constancy of circulation.

Stable Money Not Presented as a Cure-all

Stable money, immunized against interest, and geared to constancy of circulation, is not here presented as a cure-all. Wherever public policy is demonstrably wrong, wherever we are failing to get value for money spent, wherever there is misdirection of money, resources and effort, specific remedies should be applied. But money stability, to quote Sir Josiah Stamp, "is fundamental to a solution of them all."

Other Desirable Reforms Suggested

1. Welfare expenditures should be made only to persons rendered dependent by age, infirmity, disability or fortuitous circumstance.

2. Dominion-Provincial collaboration should be given to converting all titles to land, timber, mineral, water power, and other resources, into use-titles, subject to payment of rent, whether used or not, and no discriminatory charge because of use.

3. Consistently with (2) above, use-value titles to vacant urban lands to be subject to taxation at the same rate as contiguous and comparable improved properties zoned for similar use.

Barriers to Stabilization

Barriers to stabilization are not economic, or technical but political. Governments shouldering public expenditures at their present high level, are not likely to surrender their deficit spending privileges and adopt a rigid pay-as-you-earn policy, eagerly or even willingly.

An attempt must be made to reduce all expenditures for which value is not being given and received.

The National Debt

The possibility of refunding public debts at nominal interest by the adoption of demurrage-money has already been noted. The service of debt is one of the largest items in the budgets of government at all levels.

Welfare Expenditures

Whatever may have been the seeming justification for enormous expenditures on so-called welfare in the past, the justification would cease in the presence of maximum industrial activity, full employment and better diffusion of wealth. In the meantime, the expenditures tend to perpetuate the distress they purport to palliate. Like all other uneconomic and unproductive expenditures they should be tapered off as quickly as possible.

Cost of the Penal System

The Penal system into which we have drifted is the worst possible. No one invented it. No one has subjected it scrutiny to lay bare its defects. It is literally true that we have drifted into it in spite of ourselves. No one contends that the system is good for the nation or its taxpayers. No one contends it is good for the criminals themselves. This writer has yet to learn that it has a single redeeming feature. Surely intelligent effort should be made to replace it with one that is economically sound and that will accomplish its purpose.

A good penal system would make criminal living impossible. It would stop crime, prevent crime and deter from crime. It would empty the jails of all fitted, or capable of being made fit, to resume normal life.

Its sanctions should be so forbidding as to block the entrance gates to crime, and its concern for human values should be so obvious as to win-over all potential delinquents.

The task of devising such a system is simply a matter of adapting means to ends and of applying thought and intelligence to the solution of the problem. A life of crime should not be held open to any man. And no man should enjoy years of economic security at taxpayer expense because he is determined to adopt it.

Apart from defence expenditures, with which we are not here concerned, the three above mentioned budget items are the most costly, the least economic, and the most easily dealt with.

Conclusion

In the few days allotted for the writing of this brief, the writer has found it impossible to cite authorities, make references, and give documentation. Readers are referred to the works of Silvio Gesell for a fuller treatment of "Demurrage", and to the works of Ralph Manual, former President of Marquette National Bank, Minneapolis, Minnesota, for a fuller treatment of Free Banking and the separation of the Banking and Savings Departments of banks. The writer invites inquiries, and stands ready to appear before the Banking and Commerce Committee on request.

E. S. WOODWARD,
4092 W. 8th Avenue,
Vancouver, British Columbia.

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Canada Banking and Commerce
Standing Committee 1954

HOUSE OF COMMONS

First Session—Twenty-second Parliament, 1954

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STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: DAVID A. CROLL, *Esq.*

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 29

Decennial Revision of the Bank Act

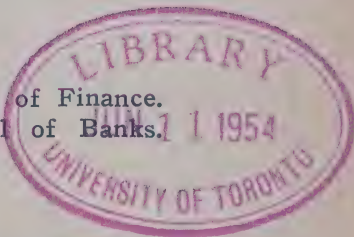
TUESDAY, MAY 18, 1954

WITNESSES:

The Honourable D. C. Abbott, Minister of Finance.

Mr. C. F. Elderkin, Inspector General of Banks.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1954.



STANDING COMMITTEE
ON
BANKING AND COMMERCE

Chairman: David A. Croll, Esq.
and
Messrs.

Anderson,	Fraser (<i>Peterborough</i>),	Mitchell (<i>London</i>),
Applewhaite,	Fraser (<i>St. John's East</i>),	Monteith,
Arsenault,	Fulton,	Nickle,
Ashbourne,	Gagnon,	Noseworthy,
Balcom,	Hanna,	Pallett,
Benidickson,	Hellyer,	Philpott,
Boucher (<i>Restigouche-</i>	Henderson,	Picard,
<i>Madawaska</i>),	Huffman,	Pouliot,
Breton,	Hunter,	Quelch,
Cameron (<i>Nanaimo</i>),	Johnson (<i>Kindersley</i>),	Robichaud,
Cannon,	Johnston (<i>Bow River</i>),	Rouleau,
Cardin,	Low,	Stewart (<i>Winnipeg</i>
Crestohl,	Macdonnell,	<i>North</i>),
Croll,	MacEachen,	Tucker,
Dufresne,	Macnaughton,	Weaver,
Dumas,	Matheson,	Wood.
Fleming,	McMillan,	
Follwell,	Michener,	

R. J. GRATRICK,
Clerk of the Committee.

REPORTS TO THE HOUSE

WEDNESDAY, May 19, 1954.

The Standing Committee on Banking and Commerce begs leave to present the following as a

SEVENTH REPORT

Your Committee has considered the following Bills and has agreed to report the said Bills with amendments:

Bill 297, An Act to amend the Bank of Canada Act;

Bill 338, An Act respecting Banks and Banking;

Bill 419, An Act respecting Savings Banks in the Province of Quebec.

A reprint of Bills 297 and 338 as amended has been ordered.

A copy of the evidence adduced is appended hereto.

All of which is respectfully submitted.

David A. Croll,
Chairman.

WEDNESDAY, May 19, 1954.

The Standing Committee on Banking and Commerce begs leave to present the following as an

EIGHTH REPORT

Your Committee recommends that 750 copies in English and 300 copies in French of its minutes of proceedings and evidence in respect of the Decennial Revision of the Bank Act be printed in blue book form, and that Standing Order 64 be suspended in relation thereto.

All of which is respectfully submitted.

David A. Croll,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, May 18, 1954.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Anderson, Applewhaite, Benidickson, Boucher (*Restigouche-Madawaska*), Cameron (*Nanaimo*), Cannon, Cardin, Crestohl, Dumas, Fleming, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Hanna, Hellyer, Henderson, Huffman, Hunter, Johnston (*Bow River*), Macdonnell, Matheson, McMillan, Michener, Monteith, Noseworthy, Pouliot, Robichaud, Stewart (*Winnipeg North*), Tucker, Wood.

In attendance: Mr. C. F. Elderkin, Inspector General of Banks; Mr. G. K. Bouey, Assistant Chief, Research Department, Bank of Canada; Mr. T. H. Atkinson, President of the Canadian Bankers' Association and Vice-President and General Manager of the Royal Bank of Canada; Mr. W. T. G. Hackett, Assistant General Manager of The Bank of Montreal.

The Committee resumed the clause by clause consideration of Bill No. 338, An Act respecting Banks and Banking.

On motion of Mr. Benidickson, the following proposed amendments were placed before the Committee:

45. Page 43, clause 88, line 3: after the word "manufactured" insert the words *or produced*.

46. Page 43, clause 88, line 18: after the word "or" insert the word *to*.

47. Page 43, clause 88, line 22: after the word "by" insert the word *any*.

48. Page 43, clause 88, line 46: delete the word "such".

49. Page 43, clause 88, line 47: after the word "by" insert the word *any*.

50. Page 44, clause 88, line 6: insert the word *any* at the start of the said line.

51. Page 44, clause 88, line 50: after the word "officers" insert a *comma* and the word *employees*.

52. Page 47, clause 88, line 29: after the word "by" insert the word *whom*.

53. Page 48, clause 88, line 6: delete the word "territory" and substitute the following words:—*any territory now forming part*—.

54. Page 49, clause 89: delete lines 6 to 32 inclusive, being all of sub-clause (2) of the said clause, and substitute therefor the following:—

(2) *Where security has been given to the bank under paragraph (g) of subsection (1) of Section 88 upon property that is or has become affixed to real or immovable property, the rights and powers of the bank do not have priority over an interest or right acquired in, on or in respect of the real or immovable property after such property has become affixed thereto unless, prior to*

(a) *the registration of such interest or right, or*

(b) *the registration or filing of the deed or other instrument evidencing such interest or right, or of a caution, caveat or memorial in respect thereof,*

there has been registered or filed in the proper land registry or land titles office,

- (c) an original of the document giving the security,
 - (d) a copy of the document giving the security, certified by an officer or employee of the bank to be a true copy, or
 - (e) a caution, caveat or memorial in respect of the rights of the bank;
- and every registrar or officer in charge of such proper land registry or land titles office to whom a document mentioned in paragraph (c), (d) or (e) is tendered, shall register or file the same according to the ordinary procedure for registering or filing within such office documents that evidence liens or charges against, or cautions, caveats or memorials in respect of claims to interests in or rights in respect of real or immovable property and subject to payment of the like fees; but this subsection does not apply if the provincial law does not permit such registration or filing of the tendered document.

55. Page 52, clause 90, line 29: after the word "security" insert the word *whatever*.

56. Page 52, clause 90, line 30: after the words "in lieu of" delete the word "the" and substitute the word *such*.

57. Page 54, clause 94, line 1: after the word "branch" insert the words *of the bank*.

58. Page 54, clause 94, line 26: insert the words *or instrument* at the start of the said line.

59. Page 57, clause 99, lines 8 and 9: delete the word "allotment" and substitute the word *offer*.

60. Page 59, clause 103, line 34: after the word "and" insert the words *to the*.

61. Page 60, clause 103, line 8: after the word "branch" insert the words *or corporation*.

62. Page 60, clause 103, line 9: after the word "branch" insert the words *or corporation*.

63. Page 60, clause 103, line 12: delete the coma after the word "may" and delete the words "in his discretion"

64. Page 60, clause 107, line 30: delete the word "all".

65. Page 61, clause 110, line 26: after the word "branch" insert the words *of the bank*.

66. Page 63, clause 116, line 27: after the word "shareholders" insert the words *according to its books*.

67. Page 63, clause 117, line 44: delete the words "from time to time".

68. Page 64, clause 119, line 30: before the word "returns" insert the words *information contained in the*

69. Page 67, clause 131, line 20: delete the words "from time to time".

70. Page 67, clause 132, delete lines 23 and 24 and insert therefor the following:—*shall pay to the Minister on demand and in any event before the final winding-up thereof, any amount that is payable by the—*

71. Page 69, clause 135, line 31: this clause is renumbered as 156.

72. Page 70, clause 136, line 11: this clause is renumbered as 135.

73. Page 70, clause 137, line 19: this clause is renumbered as 136.

74. Page 70, clause 136 (formerly clause 137): delete line 28 and insert therefor the following:—*is guilty of an offence against this Act, unless under the by-laws of the bank it is unnecessary that transfers of shares of its capital stock be made in the books of the bank—*

75. Page 70, clause 138, line 29: this clause is renumbered as 141.

76. Page 70, clause 139, line 33: this clause is renumbered as 142.

77. Page 70, clause 140, line 37: this clause is renumbered as 143.

78. Page 71, clause 141, line 1: this clause is renumbered as 137.

79. Page 71, clause 142, line 10: this clause is renumbered as 138.

80. Page 71, clause 143, line 14: this clause is renumbered as 139.

81. Page 71, clause 144, line 32: this clause is renumbered as 140.
82. Page 72, clause 145, line 1: this clause is renumbered as 149.
83. Page 72, clause 146, line 17: this clause is renumbered as 148.
84. Page 72, clause 147, line 27: this clause is renumbered as 146.
85. Page 72, clause 148, line 31: this clause is renumbered as 147.
86. Page 73, clause 147 (formerly clause 148), line 1: delete the words "default in payment of" and substitute the words *failure to pay*.
87. Page 73, clause 149, line 5: this clause is renumbered as 145.
88. Page 73, clause 150, line 18: this clause is renumbered as 144.
89. Page 73, clause 144 (formerly clause 150), line 26: delete the words "not exceeding" and substitute the word of.
90. Page 73, clause 144 (formerly clause 150): delete line 29 and substitute therefor the following:—*or any firm of which he is a member or any corporation of which he is a director—*
91. Page 73, clause 151, line 39: this clause is renumbered as 150.
92. Page 74, clause 152, line 1: this clause is renumbered as 151.
93. Page 74, clause 151 (formerly clause 152): delete lines 14 and 15 and substitute therefor the following:—*transmitted by post, the date appearing by the stamp or mark of the post office in Canada upon the envelope or wrapper enclosing the—*
94. Page 74, clause 151 (formerly clause 152), delete line 18.
95. Page 74, clause 153, line 22: this clause is renumbered as 152.
96. Page 74, clause 154, line 38: this clause is renumbered as 153.
97. Page 75, clause 155, line 1: this clause is renumbered as 154.
98. Page 75, clause 156, line 8: this clause is renumbered as 155.
99. Page 86, schedule M, assets, item 1: delete the word "subsidiary".
100. Page 86, Schedule M, Assets, item 2: delete the word "subsidiary".
101. Page 86, Schedule M, Assets, item 15: after the word "mortgages" insert the words *and hypothecs*.
102. Page 86, Schedule M, Assets, item 15: after the word "Act" insert a comma and the following: *1954, less provision for estimated loss*.
103. Page 87, Schedule M, Supplementary Information: delete the words "Contingent liability on bills rediscounted with the Bank of Canada".
104. Page 87, Schedule M, Supplementary Information: delete the words "Branch returns used in the preparation of this return and antedating the last day of the month", and substitute therefor the following: *Branch returns antedating the last day of the month used in the preparation of this return*.
105. Page 88, Schedule N, Assets, item 1: delete the word "subsidiary".
106. Page 88, Schedule N, Assets, item 9: after the word "mortgages" insert the words *and hypothecs*.
107. Page 88, Schedule N, Assets, item 9: after the word "Act" insert a comma and the following: *1954, less provision for estimated loss*.

Page 89, Schedule P, Part 1, Name of Bank, section 1, Bank of Montreal; delete subheadings (a) to (g) inclusive and substitute therefor the following:—

- (a) *The Montreal Bank;*
- (b) *The Molsons Bank;*
- (c) *The Merchants Bank of Canada;*
- (d) *The Merchants Bank (Quebec Charter);*
- (e) *The Bank of British North America;*
- (f) *The Peoples Bank of New Brunswick;*
- (g) *The People's Bank of Halifax;*
- (h) *The Exchange Bank of Yarmouth;*
- (i) *Commercial Bank of Canada;*
- (j) *The Commercial Bank of Midland District;*
- (k) *Bank of the People, Toronto.*

109. Page 90, schedule P, Part 1, Name of Bank, section 6, The Royal Bank of Canada: delete subheadings (a) to (j) inclusive and substitute therefor the following:—

- (a) *Union Bank of Canada;*
- (b) *Union Bank of Lower Canada;*
- (c) *The Northern Crown Bank;*
- (d) *The Quebec Bank;*
- (e) *The Traders Bank of Canada;*
- (f) *United Empire Bank;*
- (g) *Union Bank of Halifax;*
- (h) *The Crown Bank of Canada;*
- (i) *The Northern Bank;*
- (j) *Commercial Bank of Windsor;*
- (k) *Merchants Bank of Halifax;*
- (l) *The Merchants Bank (Nova Scotia Charter).*

The foregoing amendments were considered and adopted.

Clause 88, as amended was allowed to stand.

Clause 89, as amended, was considered and adopted.

Clause 90, as amended, was considered and adopted.

Clauses 91, 92 and 93 were severally considered and adopted.

Clause 94, as amended, was allowed to stand.

Clauses 95 to 98 inclusive were severally considered and adopted.

Clause 99, as amended, was considered and adopted.

Clauses 100, 101 and 102 were severally considered and adopted.

Clause 103, as amended, was considered and adopted.

Clauses 104, 105 and 106 were severally considered and adopted.

Clause 107, as amended, was considered and adopted.

Clauses 108 and 109 were considered and adopted.

Clause 110, as amended, was considered and adopted.

Clauses 111 to 115 inclusive were severally considered and adopted.

Clause 116, as amended, was considered and adopted.

Clause 117, as amended, was considered and adopted.

Clause 118, was considered and adopted.

Clause 119, as amended, was considered and adopted.

Clauses 120 to 130 inclusive were severally considered and adopted.

Clause 131, as amended, was considered and adopted.

Clause 132, as amended, was considered and adopted.

Clauses 133 and 134 were considered and adopted.

Clause 156 (formerly clause 135—see amendment No. 71 above) was considered and adopted.

Clause 135 (formerly clause 136—see amendment No. 72 above) was considered and adopted.

Clause 136 (formerly clause 137—see amendment No. 73 above) as amended, was considered and adopted.

Clause 141 (formerly clause 138—see amendment No. 75 above) was considered and adopted.

Clause 142 (formerly clause 139—see amendment No. 76 above) was considered and adopted.

Clause 143 (formerly clause 140—see amendment No. 77 above) was considered and adopted.

Clause 137 (formerly clause 141—see amendment No. 78 above) was considered and adopted.

Clause 138 (formerly clause 142—see amendment No. 79 above) was considered and adopted.

Clause 139 (formerly clause 143—see amendment No. 80 above) was considered and adopted.

Clause 140 (formerly clause 144—see amendment No. 81 above) was considered and adopted.

Clause 149 (formerly clause 145—see amendment No. 82 above) was considered and adopted.

Clause 148 (formerly clause 146—see amendment No. 83 above) was considered and adopted.

Clause 146 (formerly clause 147—see amendment No. 84 above) was considered and adopted.

Clause 147 (formerly clause 148—see amendment No. 85 above) as amended, was considered and adopted.

Clause 145 (formerly clause 149—see amendment No. 87 above) was considered and adopted.

Clause 144 (formerly clause 150—see amendment No. 88 above) as amended, was considered and adopted.

Clause 150 (formerly clause 151—see amendment No. 91 above) was considered and adopted.

Clause 151 (formerly clause 152—see amendment No. 92 above) as amended, was considered and adopted.

Clause 152 (formerly clause 153—see amendment No. 95 above) was considered and adopted.

Clause 153 (formerly clause 154—see amendment No. 96 above) was considered and adopted.

Clause 154 (formerly clause 155—see amendment No. 97 above) was considered and adopted.

Clause 155 (formerly clause 156—see amendment No. 98 above) was considered and adopted.

Clauses 157 to 161 inclusive were severally considered and adopted.

Schedules A to L inclusive were severally considered and adopted.

Schedule M, as amended, was considered and adopted.

Schedule N, as amended, was considered and adopted.

Schedule O was considered and adopted.

Schedule P, as amended, was considered and adopted.

Schedules Q and R were considered and adopted.

During the course of the proceedings, Mr. Elderkin answered questions specifically referred to him.

At 12.40 o'clock p.m. the Committee adjourned to meet again at 3.30 o'clock p.m. this day.

AFTERNOON SITTING

The Committee resumed at 3.30 o'clock p.m. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Anderson, Boucher (*Restigouche-Madawaska*), Breton, Cameron (*Nanaimo*), Cannon, Cardin, Dumas, Fleming, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Hanna, Hellyer, Henderson, Huffman, Hunter, Macdonnell, MacEachen, Matheson, McMillan, Michener, Monteith, Philpott, Pouliot, Quelch, Robichaud, Stewart (*Winnipeg North*), Tucker, and Wood.

In attendance: The Honourable D. C. Abbott, Minister of Finance; Mr. C. F. Elderkin, Inspector General of Banks; Mr. G. K. Bouey, Assistant Chief, Research Department, Bank of Canada; Mr. T. H. Atkinson, President of the Canadian Bankers' Association and Vice-President and General Manager of the Royal Bank of Canada; Mr. W. T. G. Hackett, Assistant General Manager of The Bank of Montreal.

The Committee resumed consideration of Clause 10, of Bill 297, an Act to amend the Bank of Canada Act.

On clause 10,

Mr. Macdonnell moved:

That Section 23(1) of the Bank of Canada Act as set out in Clause 10 of Bill 297, be amended by inserting at the beginning thereof the following words:

subject to the terms of Part 3 Section 25 of the Currency Mint & Exchange Act.

After discussion, and the question having been put, the said amendment was resolved in the negative.

Thereupon Mr. Macdonnell moved:

That Section 23 of the Bank of Canada Act, as set out in Clause 10 of Bill 297, be amended by adding as Sub-section 3 thereof the following:

The total of notes and deposit liabilities of the Bank shall at no time exceed the total amount of such notes and deposit liabilities outstanding on the day that the Bill receives Royal Assent plus 10% thereof.

After discussion, and the question having been put, the said amendment was resolved in the negative.

Clause 10 was considered and adopted.

The Title was considered and adopted.

The Bill, as amended, was considered and adopted and the Chairman ordered to report it forthwith to the House.

The Committee then resumed the clause by clause consideration of Bill 338, an Act respecting Banks and Banking.

On Clause 21,

Mr. Philpott, for Mr. Macnaughton, moved:

That Clause 21 of Bill 338 be amended by adding thereto the following new subclause (4):

(4) A person is not eligible to be elected or appointed a director after the first day of July, 1959, if he has reached the age of seventy-five years.

After discussion, and the question having been put, the said amendment was resolved in the affirmative.

Clause 36 was called, and the chairman laid before the Committee the following proposed amendments:

That Clause 36 of Bill 338 be amended by deleting paragraph (a); relettering paragraphs (b) and (c) as (a) and (b); relettering paragraph (d) as (c), and deleting the word "and" where it appears at the end of the said paragraph; relettering paragraph (e) as (d), by deleting the word "shall" in the first line thereof and substituting the word *need*, and by deleting the period at the end of the said paragraph and adding the following:

but the directors may offer shares to such a shareholder or may in lieu of such an offer provide for him such rights in respect of shares as the directors determine, and such offer of shares or provision of rights may, subject to paragraphs (a), (b), (c) and (e), be on terms different except as to price from those of the offer to or provision for shareholders whose recorded address is elsewhere than in such country, and ;

and by adding to the said clause new paragraph (e) as follows:

(e) no fraction of a share shall be offered and no rights in respect of a fraction of a share shall be provided.

The said amendments were considered and adopted.

Clause 36, as amended, was considered and adopted.

Clause 37 was called, and the Chairman laid before the Committee the following proposed amendment:

That Clause 37 of Bill 338 be amended by inserting after the word "accepted" at the end of the said Clause the following:

by the shareholder or, unless the directors have prohibited the transfer of the rights under the offer, by any transferee thereof.

The said amendment was considered and adopted.

Clause 37, as amended, was considered and adopted.

Clause 38 was called, and the Chairman laid before the Committee the following proposed amendment:

That Clause 38 of Bill 338 be deleted and the following substituted therefor:

38 (1) *Where, under section 36,*

(a) shares are offered but not subscribed for or rights in respect of shares are provided but not exercised, or

(b) shares or fractions of shares are not offered and rights in respect thereof are not provided, such shares may be disposed of in such manner and on such terms as the directors determine, except that no share shall be sold at less than par.

(2) If the average net proceeds per share of the disposal of shares under subsection (1) exceeds the price per share fixed by the directors under section 36, there shall be paid,

(a) to each shareholder to whom shares were offered but not subscribed for or for whom rights in respect of shares were provided but not exercised, the amount of such excess multiplied by the number of such shares,

(b) to each shareholder to whom shares were not offered by reason of paragraph (d) of section 36 and for whom rights in respect of shares were not provided in lieu thereof, the amount of such excess multiplied by the number of such shares, and

(c) to each shareholder to whom a fraction of a share was not offered and for whom rights in respect of a fraction of a share were not provided by reason of paragraph (e) of section 36, the amount of such excess multiplied by such fraction.

The said New clause was considered and adopted.

Clause 39 was called, and the Chairman laid before the Committee the following proposed amendment:

That Clause 39 of Bill 338 be deleted and the following substituted therefor:

39. For the purpose of disposing of shares under section 36 and 38, the directors shall cause stock books to be opened at the head office of the bank and elsewhere in their discretion and each person acquiring shares who, prior to the time of acquisition, is not a shareholder shall, at that time, give his post office address and description and these particulars shall appear in the stock books in connection with the name of the person and the number of shares acquired.

The said New clause was considered and adopted.

Clause 75 was called,

Mr. Philpott moved:

That Clause 75 of Bill 338 be amended by adding thereto new sub-clause (6) as follows: (6) Paragraphs (a) and (d) of subsection (2) do

not apply to the lending of money or the making of advances upon the security (whether by way of mortgage, transfer or otherwise) of household property, that is to say, motor vehicles and any personal or movable property for use in or about dwellings and lands and buildings appurtenant thereto, to any individual other than a manufacturer thereof or dealer therein, or to the purchase, subject to a right of redemption, of such household property from any such individual.

After discussion, and the question having been put, the said amendment was resolved in the affirmative.

Clause 75, as amended, was considered and adopted.

Clause 78 was considered and adopted.

Clause 82, as amended, was considered and adopted.

Clause 85, as amended, was considered and adopted.

Clause 86 was considered and adopted.

On clause 88,

Mr. Anderson moved:

That Clause 88, subclause 5, be amended by deleting the comma after the word "person" in line 24 thereof and inserting the following:
and concurrently accounts owing to primary producers for the selling price of fruits or vegetables in respect to deliveries thereof within a period of three months next-preceding the making of such order or assignment,;

—by inserting after the word "period" in line 29 the following:
and such accounts owing to primary producers for the selling price of fruits or vegetables with respect to deliveries made during the period aforesaid; and

inserting after the word "employees" in line 30 thereof the following:
and of such primary producers.

After discussion, and the question having been put, the said amendment was resolved in the negative.

Clause 88, as amended, was considered and adopted.

Clause 94, as amended, was considered and adopted.

The Title was considered and adopted.

The Bill as amended, was considered and adopted and the Chairman ordered to report it forthwith to the House.

Ordered,—

That Bill No. 297, An Act to amend the Bank of Canada Act, and Bill No. 338, An Act respecting Banks and Banking, be reprinted as amended.

Thereupon the Committee commenced consideration of Bill No. 419, An Act respecting Savings Banks in the Province of Quebec.

Mr. Abbott made a statement in explanation of the said Bill.

Clauses 1 to 25 inclusive were severally considered and adopted.

Clause 26 was called, and the Chairman laid before the Committee the following proposed amendment:

That clause 26 of Bill 419 be amended by deleting paragraph (a); relettering paragraphs (b) and (c) as (a) and (b); relettering paragraph (d) as (c), and deleting the word "and" where it appears at the end of the said paragraph; relettering paragraph (e) as (d) and by deleting the word "shall" in the first line thereof and substituting the word *need*, and by deleting the period at the end of the said paragraph and adding the following:

but the directors may offer shares to such a shareholder or may in lieu of such an offer provide for him such rights in respect of

shares as the directors determine, and such offer of shares or provision of rights may, subject to paragraph (a), (b), (c) and (e), be on terms different except as to price from those of the offer to or provision for shareholders whose recorded address is elsewhere than in such country; and;

and by adding to the said clause new paragraph (e) as follows:

(e) no fraction of a share shall be offered and no rights in respect of a fraction of a share shall be provided.

The said amendments were considered and adopted.

Clause 26, as amended, was considered an adopted.

Clause 27 was called, and the Chairman laid before the Committee the following proposed amendment:

That Clause 27 of Bill 419 be amended by inserting after the word "accepted" at the end of the said Clause the following:

by the shareholder or, unless the directors have prohibited the transfer of the rights under the offer, by any transferee thereof.

The said amendment was considered and adopted.

Clause 27, as amended, was considered and adopted.

Clause 28 was called, and the Chairman laid before the Committee the following proposed amendments:

That clause 28 of Bill 419 be deleted and the following substituted therefor:

28 (1) Where, under section 26,

- (a) shares are offered but not subscribed for or rights in respect of shares are provided but not exercised, or
- (b) shares or fractions of shares are not offered and rights in respect thereof are not provided, such shares may be disposed of in such manner and on such terms as the directors determine, except that no share shall be sold at less than par.

(2) If the average net proceeds per share of the disposal of shares under subsection (1) exceeds the price per share fixed by the directors under section 26, there shall be paid,

- (a) to each shareholder to whom shares were offered but not subscribed for or for whom rights in respect of shares were provided but not exercised, the amount of such excess multiplied by the number of such shares,
- (b) to each shareholder to whom shares were not offered by reason of paragraph (d) of section 26 and for whom rights in respect of shares were not provided in lieu thereof, the amount of such excess multiplied by the number of such shares, and
- (c) to each shareholder to whom a fraction of a share was not offered and for whom rights in respect of a fraction of a share were not provided by reason of paragraph (e) of section 26, the amount of such excess multiplied by such fraction.

The said new Clause was considered and adopted.

Clause 29 was called, and the Chairman laid before the Committee the following proposed amendment:

That Clause 29 of Bill 419 be deleted and the following substituted therefor:

29. For the purpose of disposing of shares under section 26 and 28, the directors shall cause stock books to be opened at the head office of the bank and elsewhere in their discretion and each person acquiring shares who, prior to the time of acquisition, is not a shareholder shall, at that time, give his post office address and description

and these particulars shall appear in the stock books in connection with the name of the person and the number of shares acquired.

The said new Clause was considered and adopted.

Clauses 30 to 121 inclusive were severally considered and adopted.

Clause 122 was called, and the Chairman laid before the Committee the following proposed amendment:

That Clause 122 of Bill 419 be amended by inserting after the figures "1952" in line 27 the following:

and The Savings Deposits Returns Act, Chapter 246 of the Revised Statutes of Canada, 1952, are
and deleting the word "is" where it appears in line 28.

After discussion, and the question having been put, the said amendment was agreed to.

Clause 123 was called, and the Chairman laid before the Committee the following proposed amendment:

That Clause 123 of Bill 419 be deleted and Clause 124 be renumbered as 124 retaining the title "Coming into Force".

After discussion and the question having been put the said amendment was agreed to.

On Schedule A, the Chairman laid before the Committee the following proposed amendment:

That Schedule A be amended by adding to item 8 the following:
less provision for estimated loss

After discussion and the question having been put the said amendment was agreed to.

Schedule A as amended was considered and adopted.

Schedule B and the Title were considered and adopted.

The Bill as amended was considered and adopted and the Chairman ordered to report it forthwith to the House.

During the course of the proceedings Mr. Elderkin answered questions specifically referred to him.

On motion of Mr. Follwell:

Ordered,—That the Committee recommend to the House that 750 copies in English and 300 copies in French of its minutes of proceedings and evidence in respect of the Decennial Revision of the Bank Act be printed in blue book form, and that Standing Order 64 be suspended in relation thereto.

At 5.15 o'clock p.m., the Committee adjourned to meet again at the call of the Chair.

R. J. GRATRIX,
Clerk of the Committee.

EVIDENCE

MAY 18, 1954
11.00 a.m.

The CHAIRMAN: Gentlemen, I see a quorum. I will ask you to turn to clause 88 which will stand. If we are able to complete consideration of the Bank Act this morning, the minister will be here this afternoon to assist us with those clauses which we have allowed to stand. Now clause 88 stands, but there are some changes and you might as well make a note of them now as I give them to you.

88. (1) The bank may lend money and make advances

- (a) to any wholesale purchaser or shipper of, or dealer in, products of agriculture, products of the forest, products of the quarry and mine, or products of the sea, lakes and rivers, upon the security of such products;
- (b) to any person engaged in business as a manufacturer, upon the security of goods, wares and merchandise manufactured by him or procured for such manufacture or production;
- (c) to any farmer, upon the security of threshed grain grown upon the farm;
- (d) to any farmer
 - (i) for the purchase of seed grain or seed potatoes, upon the security of the seed grain or the seed potatoes and any crop to be grown therefrom;
 - (ii) for the purchase of fertilizer, upon the security of the fertilizer and any crop to be grown from land on which, in the same season, the fertilizer is to be used, and
 - (iii) for the purchase of binder twine, upon the security of the binder twine and the crop in the harvesting of which the binder twine is to be used;
- (e) to any farmer or any person engaged in live stock raising, upon the security of live stock, but the security taken under this paragraph is not effective in respect of any live stock that at the time the security is taken is, by statutory law that was in force on the 1st day of July, 1923, exempt from seizure under writs of execution;
- (f) to any farmer for the purchase of agricultural implements, upon the security of such agricultural implements;
- (g) to any farmer for the purchase or installation of agricultural equipment or a farm electric system, upon the security of such agricultural equipment or farm electric system;
- (h) to any farmer for
 - (i) the alteration or improvement of a farm electric system,
 - (ii) the erection or construction of fencing or works for drainage on a farm,
 - (iii) the construction, repair or alteration of, or making of additions to, any building or structure on a farm, and
 - (iv) any works for the improvement or development of a farm for which a farm improvement loan as defined in the *Farm Improvement Loans Act* may be made,

upon the security of agricultural implements, but security taken under this paragraph is not effective in respect of any such agricultural implements that at the time the security is taken are, by statutory law that was in force on the 1st day of September, 1944, exempt from seizure under writs of execution; and

- (i) to any fisherman, upon the security of fishing vessels, fishing equipment and supplies or products of the sea, lakes and rivers, but security taken under this paragraph is not effective in respect of any such property that at the time the security is taken is, by statutory law that was in force on the 1st day of September, 1944, exempt from seizure under writs of execution;

and the security may be given by signature and delivery to the bank by or on behalf of the person giving the security of a document in the form set out in the appropriate Schedule or in a form to the like effect.

(2) Delivery of a document giving the security upon property to a bank under the authority of this section vests in the bank in respect of property therein described

- (a) of which the person giving security is the owner at the time of the delivery of such document, or
- (b) of which such person becomes the owner at any time thereafter before the release of the security by the bank, whether or not such property is in existence at the time of such delivery,

the following rights and powers, namely,

- (c) if such property is property on which security is given under paragraph (a), (b), (e), (h), or (i) of subsection (1), the same rights and powers as if the bank had acquired a warehouse receipt or bill of lading in which such property was described, or
- (d) if such property is property on which security is given under paragraph (c), (d), (f) or (g) of subsection (1), a first and preferential lien and claim thereon for the sum secured and interest thereon, and as regards a crop as well before as after the severance from the soil, harvesting or threshing thereof, and, in addition thereto, the same rights and powers in respect of such property as if the bank had acquired a warehouse receipt or bill of lading in which the property was described; and all rights and powers of the bank subsist notwithstanding that such property is affixed to real or immovable property and notwithstanding that the person giving the security is not the owner of such real or immovable property;

and all such property in respect of which such rights and powers are vested in the bank under this section is for the purposes of this Act property covered by the security.

(3) Where security upon any property is given to the bank under paragraph (c), (d), (e), (f), (g), (h) or (i) of subsection (1), the bank, in addition to and without limitation of any other rights or powers vested in or conferred on it has full power, right and authority, through its officers or agents, in case of

- (a) non-payment of any of the loans or advances for which such security was given,
- (b) failure to care for or harvest any crop or to care for any live stock covered by the security,
- (c) failure to care for any property on which security is given under paragraph (f), (g), (h) or (i) of subsection (1),
- (d) any attempt, without the consent of the bank, to dispose of any property covered by the security, or
- (e) seizure of any property covered by the security,

to take possession of or seize the property covered by the security, and in the case of a crop to care for it and harvest it or thresh the grain therefrom, and

in the case of live stock to care for it, and has the right and authority to enter upon land or premises whenever necessary for any such purpose and to detach and remove such property, exclusive of wiring, conduits or piping incorporated in a building, from any real or immovable property to which it is affixed.

(4) The following provisions apply where security upon property is given to the bank under this section:

- (a) the rights and powers of the bank in respect of property covered by the security are null and void as against creditors of the person giving the security and as against subsequent purchasers or mortgagees in good faith of the property covered by the security unless a notice of intention signed by or on behalf of the person giving the security was registered in the appropriate agency not more than three years immediately before the security was given;
- (b) the agent shall number consecutively every notice of intention received by him and shall endorse thereon the number and the hour and date of its receipt and shall file the same and enter, in alphabetical order, in a book to be kept by him, the name of every person who has given such notice of intention with the number endorsed thereon opposite to each name;
- (c) the agent shall endorse over his signature on a copy of the notice of intention to be supplied by the bank, for the records of the bank, the number and the hour and date of receipt, and the production of the copy with such endorsement and signature is conclusive evidence in all courts of the registration and of the time of registration as thereon endorsed;
- (d) registration of a notice of intention may be cancelled by registration in the appropriate agency in which the notice of intention was registered of a certificate of release signed on behalf of the bank named in the notice of intention and bearing the number and date endorsed thereon, stating that each and every security to which the notice of intention relates has been released or that no security given to the bank, as the case may be;
- (e) the agent shall number consecutively every certificate of release received by him and shall endorse thereon the number and the hour and date of its receipt and shall file the same, whereupon the registration of the notice of intention in respect of which such certificate was given shall be deemed to be cancelled and the agent shall cancel it, and after the cancellation the notice of intention is without effect as regards any security given to the bank thereafter and may be destroyed by the agent; after five years have elapsed from the receipt of a certificate of release, the agent may destroy it;
- (f) the agent may transcribe the registration of any notice of intention onto another page of the registration book, whereupon the transcription shall take the place of the entry so transcribed, and the agent may destroy any pages on which all the entries have been cancelled or transcribed in accordance with this subsection;
- (g) every person, upon payment of the proper fees, is entitled to have access to and to inspect any registration book, notice of intention or certificate of release kept by or in the custody of the agent;
- (h) for services under this section the agent is entitled to a fee of twenty-five cents for each of the following, namely,
 - (i) the registration of a notice of intention and endorsement of copy over signature,
 - (ii) the production of a registration book for inspection,
 - (iii) the production of a notice of intention for inspection, and

- (iv) the registration of a certificate of release;
- (i) any person desiring to ascertain whether a notice of intention given by a person remains registered in an agency may inquire by sending a prepaid telegram or written communication addressed to the agent, and it is the duty of the agent, in the case of a written inquiry if it is accompanied by a fee of fifty cents, and in the case of an inquiry by telegram without payment of any fee, to make the necessary inspection of the registration books and of the relative documents, if any, and to reply to the inquirer stating the name of the bank mentioned in any such notice of intention, the reply to be by mail unless a telegraphic reply is requested, in which case it shall be sent at the expense of the inquirer;
- (j) the bank shall annually, during the month of March, send by registered post to each agency a statement showing the notices of intention to give security to the bank registered in the agency more than five years before the end of the preceding December in connection with which security was given to the bank and is still in effect or stating that there are no such notices of intention; the statement shall show the name of the person who gave each such notice of intention and the number and date of its registration; on receipt of the statement, the agent shall cancel the registrations of all notices of intention to give security to the bank registered in the agency more than five years before the end of the preceding December and not shown in such a statement, and thereafter the registrations of such notices of intention are without effect and the agent may destroy all such notices of intention; and
- (k) in the subsection,
 - (i) "agency" means, in a province, the office of the Bank of Canada or its authorized representative but does not include its Ottawa office, and in the Yukon Territory and the Northwest Territories means the office of the Clerk of the Court of each of those Territories respectively;
 - (ii) "agent" means the officer in charge of the office mentioned in subparagraph (i), and includes any person acting for such officer;
 - (iii) "appropriate agency" means the agency for the province or territory in which the person by or on whose behalf a notice of intention is signed has his place of business or if such person has more than one place of business in Canada and such places of business are not in the same province or territory, the agency for the province or territory in which such person has his principal place of business or if such person has no place of business, the agency for the province or territory in which such person resides; and in respect of any notice of intention registered before the coming into force of this Act, means the office in which registration was required to be made by the law in force at the time of such registration;
 - (iv) "notice of intention" means a notice of intention in the form set out in Schedule K or in a form to the like effect, and includes a notice of intention registered before the coming into force of this Act, in the form and registered in the manner required by the law in force at the time of the registration of such notice of intention; and
 - (v) "principal place of business" means, in the case of a company incorporated by or under the authority of any Act of the Parliament of Canada, or by or under the authority of any Act

of the late Province of Canada, or by or under the authority of any province or territory of Canada, the place where according to the company's charter, memorandum of association or by-laws, the head office of the company in Canada is situate and in the case of any other company means the place at which civil process in the province or territory in which the loans or advances will be made can be served upon the company.

(5) Notwithstanding anything in subsection (2) and notwithstanding that a notice of intention has been registered pursuant to this section by a person giving security upon property under this section, where under the *Bankruptcy Act* a receiving order is made against, or an assignment is made by such person, wages, salaries or other remuneration owing in respect of the period of three months next preceding the making of such order or assignment, to employees of such person employed in connection with the business or farm in respect of which the property covered by the security was held or acquired by such person, shall be a charge upon the property covered by the security in priority to the rights of the bank therein and if the bank takes possession or in any way disposes of such property, such wages, salaries or other remuneration owing for the said period shall be paid by the bank and the bank is subrogated in and to all the rights of such employees to the extent of the amounts so paid.

On page 43, line 3, after the word "manufactured" insert the words "or produced." The clause will now read: "To any person engaged in business as a manufacturer, upon the security of goods, wares and merchandise manufactured or produced by him or procured for such manufacture or production."

Then, in line 18 on page 43, after the word "or" insert the word "to". And the clause will now read: "To any farmer or to any person engaged in livestock raising."

In line 22 on page 43 after the word "by" insert the word "any" and the clause will now read: "By any statutory law was enforced on the first day of July, 1923."

In line 46, on page 43, eliminate the word "such" and in line 47 after the word "by" insert the word "any." The clause will now read: "...but security taken under this paragraph is not effective in respect of any agricultural implements that at the time the security is taken are, by any statutory law that was in force..."

We are now on page 44. In line 6, insert the word "any" before the word "statutory" at the beginning of that line. The clause will now read: "...upon the security of fishing vessels, fishing equipment and supplies or products of the sea, lakes and rivers, but security taken under this paragraph is not effective in respect of any such property that at the time the security is taken is, by any statutory law that was in force..."

Insert after the word "officers" in line 50 on page 44, a comma and the word "employees," following the word "officers." The clause will now read: "the bank, in addition to and without limitation of any other rights or powers vested in or conferred on it, has full power, right and authority, through its officers, employees or agents, in case of..."

There is nothing on page 45 or page 46. On page 47, line 29, after the word "by" insert the word "whom" and it will now read: "...means the agency for the province or territory in which the person by whom or on whose behalf a notice of intention is signed..."

The CHAIRMAN: On page 48, line 6, delete the word "territory" and insert the word "any territory now forming part." The clause will now read: "...by or under the authority of any province or any territory now forming part of Canada." Strike out the word "territory." There is nothing else on page 48.

In sub clause 5 of clause 88 there is a notice of motion by Mr. Anderson which you have. We will have to deal with that.

Mr. FLEMING: Do I understand correctly that the minister will be here this afternoon to deal with that?

The CHAIRMAN: I will leave that by merely calling your attention to it, and we will deal with it when the minister is here. There is nothing else on page 48. On page 49 there is a lengthy amendment. I am informed it is the same sort of drafting we did in clause 82, but there is no change in substance.

Mr. FLEMING:—What is the page?

The CHAIRMAN: Page 1194 of Minutes of Proceedings and Evidence of Banking and Commerce Committee.

I am referring now to clause 89 on page 49:

89. (1) All the rights and powers of the bank in respect of the property mentioned in or covered by a warehouse receipt or bill of lading acquired and held by the bank, and those rights and powers of the bank in respect of the property covered by a security given to the bank under section 88 that are the same as if the bank had acquired a warehouse receipt or bill of lading in which such property was described, have subject to the provisions of subsection (4) of section 88 and of subsections (2) and (3) of this section, priority over all rights subsequently acquired in, on or in respect of such property, and also over the claim of any unpaid vendor, but such priority does not extend over the claim of any unpaid vendor who had a lien upon the property at the time of the acquisition by the bank of such warehouse receipt, bill of lading or security, unless the same was acquired without knowledge on the part of the bank of such lien, and where security is given upon property under paragraph (g) of subsection (1) of section 88, such priority shall exist notwithstanding that such property is or becomes affixed to real or immovable property.

(2) Where security has been given to the bank under paragraph (g) of subsection (1) of section 88 upon property that is or has become affixed to real or immovable property, the rights and powers of the bank do not have priority over an interest or right acquired in, on or in respect of the real or immovable property after such property has become affixed thereto unless an original of the document giving the security, or a copy thereof, certified by an officer of the bank to be a true copy, or caution, caveat or memorial in respect of the rights of the bank, has been registered or filed in the proper registry or land titles office before the registration of such interest or right, or of the deed or other instrument evidencing it, or of a caution, caveat or memorial in respect thereof, and every registrar or officer in charge of such proper land titles or registry office to whom a copy of a document giving such security, certified by an officer of the bank, or such a caution, caveat or memorial is tendered, shall register or file the same according to the ordinary procedure for registering or filing within such office, documents that evidence liens or charges against, or cautions, caveats or memorials in respect of claims to interests in or rights in respect of real or immovable property and subject to payment of the like fees but this subsection does not apply if the provincial law does not permit the registration or filing of such original or certified copy of the document giving the security or a caution, caveat or memorial in respect of the rights of the bank.

(3) Where security has been given to the bank under paragraph (i) of subsection (1) of section 88, upon a fishing vessel that is recorded or registered under the *Canada Shipping Act*, the rights and powers of the bank do not have priority over any rights that are subsequently acquired in the vessel

and are recorded or registered under that Act, unless a copy of the document giving the security, certified by an officer of the bank to be a true copy, has been recorded or registered under that Act in respect of the vessel before the recording or registration thereunder of such rights, and a copy of the document giving such security certified by an officer of the bank may be recorded or registered under that Act as if it were a mortgage given thereunder, and upon the recording or registration thereof the bank, in addition to and without limitation of any other rights or powers vested in or conferred on it, has all the rights and powers in respect of the vessel that it would have if the security were a mortgage recorded or registered under that Act.

(4) In the event of non-payment of any debt, liability, loan or advance, as security for the payment of which the bank has acquired and holds a warehouse receipt or bill of lading or has taken any security under section 88, the bank may sell all or any part of the property mentioned therein or covered thereby and apply the proceeds against such debt, liability, loan or advance, with interest and expenses, returning the surplus, if any, to the person by whom such security was given; but such power of sale shall, unless such person has agreed to sale thereof otherwise than as herein provided, be exercised subject to the following provisions, namely:

(a) every sale of such property other than live stock shall be by public auction after

(i) notice of the time and place of the sale has been sent by registered mail to the recorded address of the person by whom the security was given, at least ten days prior to the sale in the case of any such property other than products of the forest, and at least thirty days prior to the sale in the case of any such property consisting of products of the forest, and

(ii) publication of an advertisement of the sale, at least two days prior to such sale, in at least two newspapers published in or nearest to the place where the sale is to be made stating the time and place thereof; and if the sale is in the Province of Quebec at least one of such newspapers shall be a newspaper published in the English language and one other newspaper shall be a newspaper published in the French language;

(b) every sale of live stock shall be made by public auction not less than five days after

(i) publication of an advertisement of the time and place of the sale in a newspaper, or in the Province of Quebec in two newspapers, one in the English language and one in the French language, published in or nearest to the place where the sale is to be made, and

(ii) posting of a notice in writing, which notice shall, in the Province of Quebec, be in the English and the French languages, of the time and place of such sale, in or at the post office nearest to the place where the sale is to be made;

and the proceeds of such a sale of live stock, after deducting all expenses incurred by the bank and all expenses of seizure and sale, shall first be applied to satisfy privileges, liens or pledges having priority over the security given to the bank and for which claims have been filed with the person making the sale, and the balance shall be applied in payment of the debt, liability, loan or advance, with interest and the surplus if any returned to the person by whom such security was given;

any sale of property by the bank under this subsection vests in the purchaser all the right and title in and to the property that the person from whom

security was taken under section 86 had when the security was given or that the person from whom security was taken under section 88 had when the security was given and that he acquired thereafter.

(5) Where goods, wares and merchandise are manufactured or produced from goods, wares and merchandise, or any of them, mentioned in or covered by any warehouse receipt or bill of lading acquired and held by the bank or any security given to the bank under section 88, the bank has the same rights and powers in respect of the goods, wares and merchandise so manufactured or produced, as well during the process of manufacture or production as after the completion thereof, and for the same purposes and upon the same conditions as it had with respect to the original goods, wares and merchandise.

(6) Where payment or satisfaction of any debt, liability, loan or advance in respect of which the bank has taken security under section 86 or 88 is guaranteed by a third person and such debt, liability, loan or advance is paid or satisfied by the guarantor, such guarantor is subrogated in and to all of the powers, rights and authority of the bank under the security that the bank holds in respect thereof under sections 86 and 88 and this section.

(7) The bank may assign to any person all or any of its rights and powers in respect of any property on which security has been given to it under paragraph (f), (g), (h) or (i) of subsection (1) of section 88, whereupon such person has and may exercise all or any of the rights, powers and authority of the bank under such security.

Delete lines 6 to 32 inclusive being all of subclause 2 of the said clause and substitute the following:

By replacing subclause (2) with the following: "(2) Where security has been given to the bank under paragraph (g) of subsection (1) of section 88 upon property that is or has become affixed to real or immovable property, the rights and powers of the bank do not have priority over an interest or right acquired in, on or in respect of the real or immovable property after such property has become affixed thereto unless, prior to

- (a) the registration of such interest or right, or
- (b) the registration or filing of the deed or other instrument evidencing such interest or right, or of a caution, caveat or memorial in respect thereof,

there has been registered or filed in the proper land registry or land titles office,

- (c) an original of the document giving the security,
- (d) a copy of the document giving the security, certified by an officer or employee of the bank to be a true copy, or
- (e) a caution, caveat or memorial in respect of the rights of the bank; and every registrar or officer in charge of such proper land registry or land titles office to whom a document mentioned in paragraph (c), (d) or (e) is tendered, shall register or file the same according to the ordinary procedure for registering or filing within such office documents that evidence liens or charges against, or cautions, caveats or memorials in respect of claims to interests in or rights in respect of real or immovable property and subject to payment of the like fees; but this subsection does not apply if the provincial law does not permit such registration or filing of the tendered document."

There are no other changes on page 49. There are no changes on page 50 or page 51. I was dealing with clause 89.

Clause 89 carries.

There is a change in clause 90 (e) on page 52.

90. (1) The bank shall not acquire or hold any warehouse receipt or bill of lading, or any security under section 88, to secure the payment of any debt, liability, loan or advance unless such debt, liability, loan or advance is contracted or made

- (a) at the time of the acquisition thereof by the bank, or
- (b) upon the written promise or agreement that a warehouse receipt or bill of lading or security under section 88 would be given to the bank, in which case the debt, liability, loan or advance may be contracted or made before or at the time of or after such acquisition, and such debt, liability, loan or advance may be renewed, or the time for the payment thereof extended, without affecting any security so acquired or held.

(2) The bank may

- (a) on the shipment of any property for which it holds a warehouse receipt, or any security under section 88, surrender the receipt or security and receive a bill of lading in exchange therefor;
- (b) on the receipt of any property for which it holds a bill of lading, or any security under section 88, surrender the bill of lading or security, store the property and take a warehouse receipt therefor, or ship the property, or part of it, and take another bill of lading therefor;
- (c) surrender any bill of lading or warehouse receipt held by it and receive in exchange therefor any security that may be taken under this Act;
- (d) when it holds any security under section 88 on grain in any elevator, take a bill of lading covering the same grain or grain of the same grade or kind shipped from such elevator, in lieu of such security, to the extent of the quantity shipped; and
- (e) when it holds any security covering grain, take, in lieu of the security to the extent of the quantity covered by the security taken, a bill of lading or warehouse receipt for, or any document entitling it under the provisions of the *Canada Grain Act* to the delivery of, the same grain or grain of the same grade or kind.

After the word "security" insert the word "whatever". The clause will read as follows: "when it holds any security whatever covering grain, take, in lieu of..."

In line 30 on page 52 replace the word "the" with "such". The clause will now read: "when it holds any security whatever covering grain, take, in lieu of such security to the extent of the quantity covered by the security taken..." Subject to that minor change clause 90 carries.

Clause 91.

91. (1) Except as provided in subsection (2), no bank shall in respect of any loan or advance payable in Canada stipulate for, charge, take, reserve or exact any rate of interest or any rate of discount exceeding six per cent per annum and no higher rate of interest or rate of discount is recoverable by the bank.

(2) Where the interest or discount on any loan or advance amounts to less than one dollar the bank may, notwithstanding subsection (1), stipulate for, charge, take, reserve or exact a total charge in respect of interest or discount not exceeding one dollar, except that where the loan or advance is not in excess of twenty-five dollars and the interest or discount thereon is less than fifty cents, the maximum charge in respect thereof shall not exceed fifty cents.

Mr. ELDERKIN: In the former Act, section 91 exempted from the territory in which restricted charges might be made, the Yukon and Northwest Territories. That phrase has now been taken out so this section refers to the whole of Canada without exception.

The CHAIRMAN: Clause 91 carries.

Clause 92, carried.

Mr. MICHENER: Did we carry clause 89 as changed?

The CHAIRMAN: Yes.

Mr. MICHENER: In that long amendment on page 49 there is the same objection to draftsmanship as there was in the long one last week, if you do not mind referring back to it now. There are five subclauses, from (a) to (e) on page 1194 of the evidence of this committee. There are five subclauses from (a) to (e) as there were in the section we dealt with at the other meeting, and the first two subclauses, that is (a) and (b) relate to the interest or right of the person in the land but the last three, that is (c) to (e) refer to the documents to be registered by the bank so they are not parallel subclauses and it seems to me as a matter of draftsmanship you should leave (a) and (b) stand but when you come to the last three subclauses it should be indicated that they are not parallel subclauses.

Mr. ELDERKIN: I spoke to the parliamentary counsel on that point and he said he appreciated your comment but they had tried various methods in drafting and they found this was about the only foolproof one when it came to getting the bill in final form, and it has been accepted as the method for drafting by government.

Mr. MICHENER: It is confusing to one who is accustomed to a method where you have as many subclauses as you need and then when you get a new law to start a new subclause.

Mr. TUCKER: In regard to clause 91 in the Act, subclause 3 provides for a return to the minister of the interest and discount rates.

The CHAIRMAN: Subclause 3 of clause 91—in the old subclause?

Mr. TUCKER: In the old Act. I say in subclause 3 of the Act as it was before, there was provision for a return to the minister of the interest and discount rates charged by the bank. Now there is none in the proposed bill; is that somewhere else in the bill? Or what is the reason for dropping that?

Mr. ELDERKIN: It is covered in clause 151. The returns are all placed in one part of the Act under the new redrafting.

Mr. TUCKER: And does that provide for interest and discount rates charged by the bank?

Mr. ELDERKIN: It provides for a declaration that the rates charged are not in excess of the maximum rate.

Mr. TUCKER: Is it not desirable to have actual rates charged given by the banks?

Mr. ELDERKIN: Mr. Tucker, there never was in statutory form anything but some very broad grouping of the rates charged. The very large part of it was rates charged on other than government loans, broker's loans and the like. The form called for a test at a certain day of the year. We found the test was rather unreliable, to pick out any one day and show what the average rates were on that day. We will receive the information in another return now. That is the one provided in schedule "Q" where the banks are required to state the interest earned on loans and we have available the average loans of the banks. It is therefore quite easy to work out the average rate of interest charged during the year which is considered very much more valuable than to establish the rates charged on any one day. We feel that the new method will give us better information than was possible under the old method and we are providing in here that they must make a declaration that they have not exceeded the legal rate.

Mr. APPLEWHAITE: What is the clause?

Mr. ELDERKIN: Clause 151.

Mr. APPLEWHAITE: I do not think that provides for it.

Mr. ELDERKIN: I am sorry; I will find it.

Mr. TUCKER: There is a question right in the Act of charging a higher rate of interest.

Mr. ELDERKIN: We are asking them under clause 151 for a declaration of that fact.

Mr. TUCKER: Where does it say that in clause 151?

Mr. ELDERKIN: Shall I read it?

The CHAIRMAN: Yes.

Mr. ELDERKIN:

151. Every bank that violate the provisions of section 91 is guilty of an offence and liable on summary conviction or on conviction upon indictment to a fine not exceeding five hundred dollars, and every person who, being an officer or employee of the bank, violates the provisions of section 91 is guilty of an offence and liable on summary conviction to a fine not exceeding one hundred dollars.

That is the penalty. Now, I should have said the return is provided for in clause 113 on page 62.

The CHAIRMAN: Clause 92. Carried.

Clause 93.

Mr. TUCKER: Mr. Chairman, there is also subclause 5 of clause 91?

Mr. ELDERKIN: It now appears as subclause 2 of clause 93.

Mr. TUCKER: I wonder, Mr. Chairman, if it would assist us if you were able to tell exactly what changes are being made and if something is being dropped out of the bill where it will be found elsewhere in the bill.

The CHAIRMAN: All right, as we go along. There is no change in clause 92. Carried.

92. The bank may, in discounting a bill of exchange, promissory note or other negotiable instrument, in order to defray the expense of collection thereof, charge in addition to the discount thereon,

- (a) where the instrument is payable at a branch of the bank in Canada and is discounted at another bank, an amount not exceeding one-eighth of one per cent of the amount of the instrument or fifteen cents, whichever is greater, or
- (b) where the instrument is payable at a place in Canada, other than a branch of the bank, an amount not exceeding one-fourth of one per cent of the amount of the instrument or twenty-five cents, whichever is greater.

Mr. MACDONNELL: Just a moment, Mr. Chairman. There may be no specific change in clause 92, but there is a considerable difference in the wording.

Mr. BENIDICKSON: It is the same wording. My intention was to draw attention to any substantial changes but this is a redraft in wording.

Mr. MACDONNELL: I did not have a chance to examine this closely, but I just noticed there were a lot more words.

Mr. ELDERKIN: It combines former sections 93 and 94 and that is why there are more words.

Mr. TUCKER: Subclause 2 of the old Act provided that there was no limitation against recovering deposits. Where is that in the new bill?

Mr. CRESTOHL: Subclause 5 of clause 94.

The CHAIRMAN: Mr. Crestohl is quite right. Clause 93 is redrafted to correspond with clause 99 of the Financial Administration Act. No change, carried.

Clause 94 corresponds to clause 3 of the 1944 Act except that it refers to the debts payable in Canadian currency.

94. (1) Where

- (a) a debt payable in Canada in Canadian currency is owing by the bank by reason of a deposit at a branch of the bank in Canada in respect of which no transaction has taken place and no statement of account has been requested or acknowledged by the creditor during a period of ten years reckoned.

- (i) in the case of a deposit made for a fixed period, from the day on which the fixed period terminated, and

- (ii) in the case of any other deposit, from the day on which the last transaction took place or a statement of account was last requested or acknowledged by the creditor, whichever is later, or

- (b) a cheque, draft or bill of exchange (including an instrument drawn by one branch of the bank upon another branch of the bank) payable in Canada in Canadian currency has been issued, certified or accepted by the bank at a branch in Canada and no payment has been made in respect thereof for a period of ten years from the date of issue, certification or acceptance,

the bank shall pay to the Bank of Canada an amount equal to the amount owing by the bank in respect of the debt or to the amount that would be owing if the instrument had been presented for payment, including interest, if any, in accordance with the terms of the debt or instrument, and payment accordingly discharges the bank from all liability in respect of the debt or instrument.

(2) Where in the opinion of the Minister, there is doubt as to who is entitled to payment of a debt or instrument specified in subsection (1) he may, in writing, direct the bank to withhold the payment required by subsection (1) and the bank shall not make the payment until directed to do so in writing by the Minister.

(3) Subject to subsection (4) of section 18 of the *Bank of Canada Act*, where payment has been made to the Bank of Canada under subsection (1) with respect to a debt or instrument, the Bank of Canada, if payment is demanded or the instrument is presented at the Bank of Canada by the person who, but for subsection (1), would be entitled to receive payment of the debt or instrument, is liable to pay at its agency in the province in which the debt was payable, an amount equal to the amount so paid to it, with interest thereon for a period not exceeding twenty years, from the day on which the payment was received by the Bank of Canada until the date of payment to the claimant, at such rate and computed in such manner as the Treasury Board determines if interest was payable in accordance with the terms of the debt, and such liability may be enforced by action against the Bank of Canada in a court of competent jurisdiction in the province in which the debt or instrument was payable.

(4) Where the bank has paid an amount to the Bank of Canada under subsection (1) in respect of a debt or instrument, it shall keep all signature cards and signing authorities relating to the debt or instrument until the Bank of Canada notifies the bank that they are no longer required and thereafter may destroy them.

(5) Except as provided in subsection (1) of this section, and in subsection (2) of section 74, no debt owing by the bank by reason of a deposit is extinguished and no action to enforce payment thereof is barred by any statute of prescription or limitation.

In clause 94 on page 54, line 1, insert after the word "branch" the words "of the bank".

The clause will now read: "... accepted by the bank at a branch of the bank in Canada ..." In line 26 of clause 94 on page 54 before the word "was" in line 26 insert the words "or instrument", so it will now read: "... in which the debt or instrument was payable ..." Otherwise it is the same.

Mr. MACDONNELL: One question, Mr. Chairman. In subclause 2 which refers to the discretion of the minister, is there any limit of any kind as to when the matter must be cleaned up or can it be left indefinitely?

The CHAIRMAN: Subclause 2?

Mr. MACDONNELL: Yes.

The CHAIRMAN: It is intended to cover matters which are under litigation.

Mr. ELDERKIN: There are cases now when a deposit might be under litigation and when the creditor does not appear in the litigation. This provision is to enable the minister to instruct the bank that until such litigation has been decided they should retain the deposit and not pay it to the Bank of Canada.

Mr. MACDONNELL: But this only affects cases where there is litigation?

Mr. ELDERKIN: Where there is any doubt about who is entitled to the payment. It may not have reached the stage of actual litigation.

Mr. MACDONNELL: I was thinking of a time when a red light suddenly comes on, but if you are satisfied with it—

Mr. MICHENER: What is the disposition after the transfer of funds to the Bank of Canada. Does interest continue to accrue on interest bearing deposits in the hands of the Bank of Canada indefinitely?

Mr. ELDERKIN: For 20 years.

Mr. MICHENER: That is the maximum?

Mr. ELDERKIN: Yes.

Mr. MICHENER: It occurred to me that there is no legal obstacle to the same procedure being followed with regard to dead accounts in the post office savings department.

Mr. ELDERKIN: I could not answer that.

Mr. MICHENER: I noticed that in the report of the postmaster that there was one account opened in 1878 on which there has been no transaction since that time and there are 150,000 dead accounts in the post office. An amendment of this nature could be applied to the post office?

Mr. ELDERKIN: You mean, a similar clause could be inserted in the Post Office Act?

Mr. MICHENER: Yes.

Mr. ELDERKIN: Yes. It hardly would come into this Act which relates only to chartered banks.

Mr. MICHENER: Yes, but this is the provision which permits or compels the transfer of funds after they have been inactive for 10 years with respect to chartered banks only.

Mr. ELDERKIN: Yes.

Mr. MICHENER: But there would be nothing in it which would be inapplicable to the Post Office Act as far as the procedure goes?

Mr. ELDERKIN: If I remember correctly, the auditor general suggested that some section like this be worked out for the post office.

Mr. MICHENER: This has been found to work out satisfactorily?

Mr. ELDERKIN: Yes.

Mr. MACDONNELL: I would like to go back to clause 94. I do not want to be insistent but let me read from the first part of the clause: "Where a

debt payable in Canada in Canadian currency." And then I go on to page 54 and in respect of this matter it says: "the bank shall pay to the Bank of Canada an amount equal to the amount owing by the bank in respect of the debt . . ." I understood Mr. Elderkin to say that this affects in the main cases which were under litigation. I do not find anything in the clause which says that. Perhaps I have not read it carefully enough.

Mr. ELDERKIN: Not necessarily under litigation, but any cases where litigation is threatened or where the ownership is in dispute for one reason or another and the only manner in which the draftsman felt they could cover all the possibilities which it is desired to cover was by describing it as a case where there is doubt.

Mr. BENIDICKSON: Cases where the minister gets a notice of adverse claim.

Mr. CAMERON (*Nanaimo*): Is there not always doubt about the ownership when the account has been inactive?

Mr. ELDERKIN: Not unless there has been something filed with the bank. The bank would otherwise consider the original owner was the person, or as I believe the case to be in law, his heirs, if he were dead.

Mr. FRASER (*Peterborough*): I understand the banks after a period of five or more years send out a letter to the depositor?

Mr. ELDERKIN: After a period of two years and again after a period of five years.

Mr. FRASER (*Peterborough*): By doing that they keep a check on the old accounts?

Mr. ELDERKIN: Yes, they do make an attempt to discover the owner because in many cases the accounts are small and are really costly to look after.

Mr. CAMERON (*Nanaimo*): What about sending out monthly statements?

Mr. ELDERKIN: There is no obligation for them to send out monthly statements. Now they send them out every two months for current accounts and of course in the case of savings accounts they do not send any at all.

Mr. BENIDICKSON: Does that not include where there has been no payment or withdrawal but a case where a book has not been brought to the bank for marking?

Mr. ELDERKIN: Yes, if a book relating to a savings account is brought in, a bank will always note on the ledger sheet that it has been presented for writing up and that is considered to be acknowledgement.

Mr. BENIDICKSON: And it reactivates the account?

Mr. ELDERKIN: Yes.

Mr. McMILLAN: Would a bank attempt to contact a person before the money is sent to the central bank?

Mr. ELDERKIN: Yes, they are required to. The banks would much prefer to pay it out than pay it to the Bank of Canada.

Mr. McMILLAN: I know an individual who had a savings account and it was sent in after a certain period.

Mr. MACDONNELL: I am sorry to persist in this but subclause 2 is new, is it not?

The CHAIRMAN: Yes.

Mr. MACDONNELL: Mr. Elderkin seems to be satisfied with this but it is not clear to me. The wording of this seems a little strange to me. There is nothing here to suggest that it has anything to do with litigation. Let me direct your attention to the words again;

(2) Where in the opinion of the Minister, there is doubt as to who is entitled to payment of a debt or instrument specified in subsection

(1) he may, in writing, direct the bank to withhold the payment required by subsection (1) and the bank shall not make the payment until directed to do so in writing by the Minister.

Now, does that mean that the minister could intervene quite apart from the courts? He would not do it, but I am asking about the wording of this.

Mr. ELDERKIN: I cannot imagine the minister taking any steps to make a bank retain a deposit which would otherwise be paid to the Bank of Canada, except in the case of litigation or prospective litigation which would involve the Bank of Canada. One of the main reasons for putting this clause in is, if the deposit is one paid to the Bank of Canada and litigation proceeds then the Bank of Canada becomes a party to the litigation. All the records pertaining to the account are in the hands of the bank at which the deposit is recorded and the minister would, I think, feel that they were the people to properly handle the litigation.

Mr. MACDONNELL: Is the practice that it automatically goes to the Bank of Canada unless the minister intervenes?

Mr. ELDERKIN: Yes.

Mr. FRASER (*Peterborough*): The minister would not intervene unless it was in the courts.

Mr. ELDERKIN: Unless he was notified by the bank that the ownership of the account was in doubt.

Mr. APPLEWHAITE: Referring to that subclause 2, are they in the hands of the chartered banks or have they been turned over to the central bank?

Mr. ELDERKIN: We are referring only to those at present in the hands of the chartered banks but which will be turned over to the Bank of Canada at the expiry of ten years.

Mr. TUCKER: Mr. Chairman, as I understand it in the old Act, banks could not destroy the books until they were 30 years old. Clause 74 now brings that period down to 20 years and also provides that the Bank of Canada can authorize their destruction sooner as I understand it. Would Mr. Elderkin explain why that provision is being made?

Mr. ELDERKIN: The Bank of Canada has no authority to instruct the banks regarding destruction of records with the exception of the records mentioned in subclause 4 of clause 94 on page 54.

Mr. TUCKER: Then, the old Act said the bank could destroy its books after 30 years, and here it says that the Bank of Canada can authorize them to destroy their signatures prior to the 30 year period.

Mr. ELDERKIN: They must retain their signature cards and signing authority until the Bank of Canada instructs them otherwise in the case of accounts paid to the Bank of Canada. But, if an account is paid to the Bank of Canada and Bank of Canada pay that out after one year it has no more interest in the signature card and signing authority with respect to that account and instructs the bank that it may destroy them as they have no longer any interest in them. There is a reduction in the other term from 30 years to 20 years. My understanding is that the reason that the term was set at 30 years in 1944 was because there was some doubt which had arisen with respect to deposit accounts in the banks of Quebec under the law of *bona vacantia*. And, until that was cleared by Privy Council decision shortly afterwards, it was necessary that the banks maintain records for the period covered by that law. Now, it has been reduced to 20 years because one of the great inconveniences that the banks have is the enormous pile of

obsolete records they are forced to maintain. It was felt quite reasonable that if no claim was made in respect of an account for 20 years the bank could destroy the account but maintain its signature cards and signing authority and that was all that was necessary to maintain.

Mr. TUCKER: The old Act provided it must retain its signature cards and signing authorities for 30 years, and the new Act provides they can be destroyed the minute the Bank of Canada authorizes it.

Mr. ELDERKIN: That is only after the Bank of Canada has paid the account and has no more interest in it.

Mr. TUCKER: It does not say that.

Mr. ELDERKIN: But the Bank of Canada is not going to instruct the destruction of records for accounts which they have on their books.

Mr. MITCHENER: The chartered bank has no further interest or responsibility in this account, but yet it is required to maintain record with respect thereto.

Mr. ELDERKIN: The routine is that the claim must be made through the bank of deposit.

Mr. MITCHENER: There is nothing in the section to say that. The section clears the chartered banks completely from their responsibility of the account.

Mr. ELDERKIN: Yes. But the Bank of Canada requires that the chartered banks clear the account through the original bank of deposit where such records are maintained and normally where is a method of proving ownership.

Mr. MITCHENER: It seems to me that we are putting an obligation on the chartered banks to maintain records in respect to accounts on which they have no liability and we are only cluttering up their accounts unnecessarily when the money is in the hands of the Bank of Canada and the Bank of Canada is the only bank liable to repay the funds and it should have the records.

Mr. ELDERKIN: The only records which will be required to be maintained after 20 years would be the signature cards. But within the 20 year expiry period when the account is unclaimed all those ledgers relative to the account are in the hands of the bank. Now, it would be an extremely difficult thing to ask the bank to transfer the records of an individual account to the Bank of Canada. Therefore, it is a matter of arrangement between the banks and the Bank of Canada that the banks will process the claims and send it on to the Bank of Canada although they do not take financial responsibility for it.

Mr. FRASER (*Peterborough*): The bank would be in the rather awkward position if the gentleman walked in after eleven years with his little bankbook and said I would like to withdraw this and the bank would have no record if they destroyed the signature cards.

Mr. ELDERKIN: They would not have destroyed the signature cards.

Mr. FRASER (*Peterborough*): Alright. If they did not have the records they would be in a difficult position. They would say you have no account here.

Mr. ELDERKIN: I would think that the banks would prefer it this way because they keep in touch with their depositor and probably get him back again in that way.

Mr. MACDONNELL: Has it been found that the present practice is very inconvenient and is there a balance of inconvenience which renders this necessary?

Mr. ELDERKIN: Yes. I think we have three lawsuits at the present time on this point. If the amount is paid into the Bank of Canada, immediately the

Bank of Canada steps into the position, without the necessary records, of being a party to the lawsuit. The lawsuit is considered at this stage to be something that should rest with the banks.

Mr. MACDONNELL: If there were three hundred alright, but there were only three. How many cases would there be where the banks are left with their records still cluttered up? Is it a score or 10,000 they would now, if the clause stands, be able to hand over to the Bank of Canada?

Mr. ELDERKIN: I was not referring to this particular point when I spoke about cluttering up records. I was referring only to the case where an account is, or may become, subject to litigation, and where it is considered that it should not be transferred to the Bank of Canada until the ownership is definitely decided.

Mr. MACDONNELL: Is it a matter running into hundreds of cases a year?

Mr. ELDERKIN: No, but it is a matter of running into some awkward cases even if few.

Mr. FRASER (*Peterborough*): Can you say how many accounts are transferred over to the Bank of Canada in each year?

Mr. ELDERKIN: The annual return which covers a period of five years mentions about 25,000 accounts. I would estimate that the number of accounts turned over to Bank of Canada annually ranges between 4,500 and 5,000 accounts.

Mr. FRASER (*Peterborough*): That would be new accounts each year?

Mr. ELDERKIN: Yes.

Mr. FRASER (*Peterborough*): That is quite a number.

Mr. ELDERKIN: Yes.

Mr. MICHENER: How much money is now held by the Bank of Canada under this provision approximately?

Mr. MACDONNELL: And how many accounts?

Mr. MICHENER: He said 25,000 accounts.

Mr. ELDERKIN: I will give you that this afternoon. I am afraid that I do not have that information here. I think it runs into about 140,000 accounts at the present time and about three million dollars.

Mr. MICHENER: After the 20 year period what becomes of the funds in the Bank of Canada?

Mr. ELDERKIN: They stay there indefinitely.

Mr. MICHENER: They are maintained indefinitely?

Mr. ELDERKIN: Subject to a prescription clause in the Bank of Canada Act on small amounts of under \$10 after a period of 20 years.

Mr. CAMERON (*Nanaimo*): They cease to draw interest after 20 years?

Mr. ELDERKIN: Yes.

Mr. MICHENER: There is no provision to forfeit these funds after 20 years?

Mr. ELDERKIN: Only in respect to small accounts under \$10.

Mr. CRESTOHL: Mr. Chairman, clause 94, subclause 1, where the section speaks of the payments that are to be turned over by the banks of the Bank of Canada, you speak of turning over to the Bank of Canada the debt and accumulated interest? Is that correct?

Mr. ELDERKIN: Yes.

Mr. CRESTOHL: Now, if you look at this clause 5, statutes of limitation, you see that no action is barred for recovery of the debt, but you do not speak of interest in that section, and, therefore, I suggest that I think, only for the purpose of clarity, in the third line of subclause 5 after the word "deposit" it should read: "and accumulated interest thereon should be barred."

Mr. ELDERKIN: I remember that coming up in the discussions when drafting, and the parliamentary counsel was of the opinion that when you said a debt owing by reason of a deposit it would include any interest which went with the deposit.

Mr. CRESTOHL: Yes. My suggestion is only for the purpose of clarity because you vary that in subclause 1 where you do speak of the debt and interest. If you did not use the word "interest" in subclause 1, then you would not have to use it in subclause 5. At the top of page 54: "the bank shall pay to the Bank of Canada an amount equal to the amount owing by the bank in respect of the debt or to the amount that would be owing if the instrument had been presented for payment, including interest..."

Mr. ELDERKIN: Interest is included there with relation to the instrument.

Mr. CRESTOHL: Well, I do not think it would hurt at all if line 44, subclause 5 read: "by reason of a deposit and accumulated interest thereon". It certainly would not hurt the meaning which the draftsmen intended to convey.

The CHAIRMAN: Subclause 5 is the same as subclause 2 of the 1944 Act, you suggest a change in the 1944 Act which seems to have worked out quite satisfactorily.

Mr. CRESTOHL: For the purpose of clarity, since you do put "including interest" on one subclause of 94, why not have it in the other subclause?

Mr. ELDERKIN: I am not qualified to say, Mr. Crestohl, whether there is any objection or not. Frankly I do not see any objection to your suggestion.

Mr. BENIDICKSON: Let it stand.

The CHAIRMAN: Stand.

Clause 95. There is no change. It is the same as 95 of the 1944 Act.

Carried.

Clause 96. No change at all.

Carried.

Clause 97.

97. (1) Where a person dies, having a deposit with the bank not exceeding two thousand dollars, the production to the bank of

- (a) any authenticated copy of the probate of the will of the deceased depositor, or of letters of administration of his estate, or of letters of verification of heirship, or of the act of curatorship or tutorship, granted by any court in Canada having power to grant the same, or by any court or authority in a country of the British Commonwealth or any colony, dependency or protectorate of any such country, or of any testament-testamentar or testament-dative expede in Scotland,
- (b) an authentic copy of the will of the deceased depositor, if such will is in notarial form, according to the law of the Province of Quebec, or
- (c) if the deceased depositor died elsewhere than in a place mentioned in paragraph (a), any authenticated copy of the probate of his will, or of letters of administration of his property, or other document of like import, granted by any court or authority having the requisite power in such matters,

is sufficient justification and authority for paying such deposit, in pursuance of and in conformity to such probate, letters of administration, or other documents.

(2) When the authenticated copy or other document of like import is produced to the bank under subsection (1) there shall be deposited with the bank a true copy thereof.

The amount is increased. Otherwise the clause is the same.

Carried.

Clause 98. Redrafted but has the same effect.

98. The bank, when making any payment shall, on the request of the person to whom the payment is to be made, make the payment or a part thereof, not exceeding one hundred dollars, as that person requests, in Bank of Canada notes for one, two or five dollars each.

Carried.

Clause 99. This clause, along with clause 101 and 102 has been redrafted.

PURCHASE OF ASSETS AND AMALGAMATION

99. (1) A bank may sell the whole or part of its assets to any other bank and the other bank may purchase them.

(2) The terms of purchase and sale of assets under this section shall be specified in an agreement (hereinafter called a "sale agreement") entered into between the banks concerned in accordance with section 101.

(3) Where, pursuant to a sale agreement, a bank is required to issue shares of its capital stock by way of consideration under the agreement and for such purpose it is necessary to increase the capital stock of the bank, the shareholders may, notwithstanding anything in this Act, by by-law, increase the capital stock to the extent necessary to comply with the agreement, and the provisions of this Act relating to the increase of capital stock and the allotment and sale of such increased stock do not apply in respect of the increase of capital stock under this section or the shares issued as a result of the increase; a by-law made under this subsection has no force or effect unless and until the sale agreement is approved by the Governor in Council under section 102.

(4) The approval by the Governor in Council under section 102 of a sale agreement vests in the purchasing bank the assets of the selling bank that under the agreement are purchased by the purchasing bank, and, subject to the agreement, the selling bank shall thereafter, if requested by the purchasing bank, execute such formal and separate conveyances, assignments and assurances as are reasonably required to confirm or evidence the vesting in the purchasing bank of the full title and ownership of the said assets.

(5) Upon approval of a sale agreement by the Governor in Council, the purchasing bank becomes liable instead of the selling bank to discharge all obligations of the selling bank that have been assumed by the purchasing bank under the agreement and, notwithstanding anything in the agreement, to redeem the outstanding notes of the selling bank issued for circulation in a country outside Canada exclusive of those in respect of which payment has been made as contemplated by subsection (3) of section 72, and the notes shall be deemed for all purposes to be notes of the purchasing bank.

(6) When the Governor in Council has approved a sale agreement, the selling bank may thereafter carry on business only to the extent necessary to enable the directors to carry out the sale agreement and wind up the business of the bank.

On page 57, lines 8 and 9: delete the word "allotment" and substitute the word "offer". So it will read: "... and the provisions of this Act relating to the increase of capital stock and the offer and sale of such increased stock . . ." There is no other change.

Carried.

Clause 100.

100. (1) Any two or more banks may amalgamate for the purpose of continuing as one bank (hereinafter called the "amalgamated bank") under the name of one of the amalgamating banks or under a new name.

(2) The banks proposing to amalgamate shall enter into an agreement (hereinafter called an "amalgamation agreement"), in accordance with section 101, prescribing

- (a) the terms of the amalgamation,
- (b) the name of the amalgamated bank,
- (c) the names, callings and places of residence of the directors of the amalgamated bank who shall hold office until the first annual meeting,
- (d) the capital of the amalgamated bank,
- (e) the manner and terms of issuing shares of the amalgamated bank to the shareholders of the banks that are parties to the agreement, and
- (f) such other matters as may be necessary to perfect the amalgamation and to provide for the subsequent management and working of the amalgamated bank.

(3) The approval of the Governor in Council under section 102 of an amalgamation agreement amalgamates the banks that are parties to the agreement and creates them one body politic and corporate and they shall continue thereafter as one bank under the name specified in the agreement.

(4) The amalgamated bank owns and possesses all the property, rights and interests and is subject to all the duties, liabilities and obligations of each of the parties to the amalgamation agreement, and the outstanding notes of the parties to the agreement shall be deemed for all purposes to be notes of the amalgamated bank.

(5) When approved by the Governor in Council, the amalgamation agreement has the force of law and, subject to the agreement, this Act, except section 14, applies to and is the charter of the amalgamated bank. This is new. This clause provides the method for amalgamation.

Carried.

Clause 101. * This clause has been redrafted.

101. (1) This section and section 102 apply in respect of a sale agreement and an amalgamation agreement.

(2) The terms of a proposed agreement shall be submitted to the shareholders of each of the banks that are to become parties thereto either at an annual general meeting or at a special general meeting duly called for the purpose.

(3) The directors of each bank shall cause a draft of the proposed agreement to be sent by registered mail to every shareholder of the bank at his recorded address at least four weeks prior to the date of the meeting at which the agreement is to be submitted, together with a notice of the time and place of the holding of the meeting.

(4) If at a meeting of the shareholders of each bank at which the proposed agreement is submitted in accordance with this section, the agreement is approved by resolution carried by the votes of the shareholders, voting in person or by proxy, representing not less than two-thirds of the amount of the subscribed capital stock of the bank, the agreement may be executed on behalf of each bank.

Mr. MACDONNELL: Mr. Chairman, would you say a word about the difference between 100 and 99?

Mr. ELDERKIN: Clause 99 provides for the purchase of one bank by another, or the purchase of part of its assets by another bank. There are some implications in that type of transaction today, through provisions in the Income Tax Act, which in effect says that type of transaction gives rise to a distribution of assets to the shareholders of the selling bank and would be subject to tax if there was any surplus involved. Section 100 is a method of amalgamation which is incorporated in the new Ontario Corporations Act and which has in effect received the blessing of the Income Tax Department as a transaction which is not subject to taxation if carried out in that manner. So, there are two methods provided here. A bank could (a) buy the assets and assume the liabilities of a bank, or (b) amalgamate with the other bank under clause 100.

The CHAIRMAN: Clause 102. Carried. The clause has been redrafted to refer to amalgamation agreements as well as sales agreements.

Clause 103.

103. (1) The bank shall, within the first twenty-eight days of each month, make a return to the Minister and Bank of Canada in the form set out in Schedule M, which shall present fairly the financial position of the bank on the last day of the last preceding month.

(2) Where a bank carries on the business of banking outside Canada in the name of a corporation controlled by the bank, and owns all the issued capital stock of the corporation except the qualifying shares of directors, the assets and liabilities of the corporation shall be consolidated with those of the bank for the purposes of the return required by this section and attention drawn to the consolidation by way of footnote.

(3) Where the return of a branch of the bank or of a corporation referred to in subsection (2) for the last day of a month does not, before the tenth day of the next following month, reach

(a) the head office of the bank, or

(b) the office of the general manager, if his office is at a place other than the head office,

the return last received from the branch showing, as far as that branch is concerned, the financial position of the bank at the date specified therein may be used in the preparation of the return required by this section.

(4) The Governor in Council may, in his discretion amend Schedule M.

In clause 103 there has been a change on page 59, line 34. After the word "and" insert the words "to the" and it will now read: "The bank shall, within the first twenty-eight days of each month, make a return to the minister and to the Bank of Canada."

On page 60 there are some changes. In line 8 after the word "branch" insert the words "or corporation" and in line 9 after the word "branch" insert the words "or corporation." The clause will now read: "the return last received from the branch or corporation showing, as far as that branch or corporation is concerned, the financial position of the bank."

On page 60, clause 103, line 12, delete the comma after the word "may" and delete the words "in his discretion." It will now read: "The Governor in Council may amend schedule M."

That is a matter of redrafting; we had that before.

Mr. MICHENER: There is a misprint in the marginal note.

Mr. ELDERKIN: Yes, it is not necessary to make an amendment.

Mr. MACDONNELL: Why does the Governor in Council not use discretion in clause 103, subclause 4?

Mr. FRASER (*Peterborough*): He is exempt from it.

Mr. BENIDICKSON: That is an example of the redundancy we were talking about.

The CHAIRMAN: Clauses 104, 105 and 106 carried.

Clause 107.

107. The bank shall, once in each year, make a return to the Minister, in accordance with regulations of the Treasury Board, with respect to all loans made by the bank in Canada that are outstanding on a day specified in the regulations.

Clause 107 has an amendment. Delete the word "all" in line 30.

Mr. TUCKER: I do not see it here.

Mr. BENIDICKSON: It is not referred to in the minutes.

The CHAIRMAN: It will now read: "The bank shall, once in each year, make a return to the minister, in accordance with regulations of the Treasury Board, with respect to loans made by the Bank of Canada that are outstanding on a day specified in the regulations."

Mr. ELDERKIN: The reason for that is that otherwise it would include mortgage loans which are reported on a separate return.

The CHAIRMAN: Clause 108 carried.

Clause 109 carried.

109. (1) The bank shall, within thirty days after the end of each calendar year, make a return to the Minister as of the end of that calendar year with respect to all debts payable by the bank in Canada in Canadian currency by reason of deposits at branches of the bank in Canada in respect of which no transaction has taken place and no statement of account has been requested or acknowledged by the creditor during a period of nine years or more, reckoned.

- (a) in the case of a deposit made for a fixed period, from the day on which the fixed period terminated, and
- (b) in the case of any other deposit, from the day on which the last transaction took place or a statement of account was last requested or acknowledged by the creditor, whichever is later,

until the date of the return.

(2) A return made under subsection (1) shall show

- (a) the name of each creditor to whom, according to the books of the bank, the debts are payable,
- (b) the recorded address of each such creditor,
- (c) the amount payable to each such creditor, and
- (d) the branch of the bank at which the last transaction took place with respect to the debt, and the date thereof.

Mr. TUCKER: Is there any change outside of striking out the word "all"?

The CHAIRMAN: No.

Mr. MACDONNELL: Do I understand—

The CHAIRMAN: Clause 107 was formerly clause 115 and is redrafted with the same effect.

Mr. MACDONNELL: —is the word "all" taken out for fear it would include mortgage loans? Do you mean to say that some good lawyer could not argue that it includes mortgage loans?

Mr. ELDERKIN: The Treasury Board makes the rules under the circumstances and therefore could rule that it does not mean mortgage loans.

Mr. MACDONNELL: Why not make it clear? We could have a grand lawsuit over that some day.

Mr. ELDERKIN: It is only between the banks and the government. It is a question of a return asked for by the government.

Mr. FRASER (*Peterborough*): Did some of the banks misunderstand it before?

Mr. ELDERKIN: No, we did not have mortgage loans before and that is why the word "all" comes out.

The CHAIRMAN: There is nothing new in clause 108. Carried.

Clause 109 carried.

Clause 110.

110. (1) The bank shall, within thirty days after the end of each calendar year, make a return to the Minister as of the end of that calendar year of every cheque, draft or bill of exchange (including an instrument drawn by one branch of the bank upon another branch of the bank) payable in Canada in Canadian currency that has been issued, certified or accepted by the bank at a branch in Canada and in respect of which no payment has been made for a period of nine years or more reckoned from the date of issue, certification or acceptance until the date of the return.

(2) A return made under subsection (1) shall show

- (a) the name of each person to whom or at whose request each instrument was issued, certified or accepted,
- (b) the recorded address of each such person,
- (c) the name of the payee of each instrument,
- (d) the amount and date of each instrument,
- (e) the name of the place where each instrument was payable, and
- (f) the branch of the bank at which each instrument was issued, certified or accepted.

There is an amendment in line 26 of clause 110. After the word "branch" in line 26 insert the words "of the bank". The clause will now read: "certified or accepted by the bank at a branch of the bank in Canada."

Clause 111 is similar to the provisions in the 1944 Act and there is no change. Carried.

Clause 112.

112. (1) The bank shall mail to each person, insofar as known to the bank,

- (a) to whom a debt referred to in section 109 is payable,
- (b) to whom or at whose request an instrument referred to in section 110 was issued, certified or accepted, and
- (c) to whom a dividend referred to in section 111 is payable,

at his recorded address, a notice in writing stating that the debt, instrument or dividend, as the case may be, remains unpaid.

(2) The notice required by subsection (1) shall be given during the month fo January next after the end of the first two-year period, and also during the month of January next after the end of the first five-year period, in respect of which

- (a) no transaction has taken place and no statement of account has been requested or acknowledged by the creditor,
- (b) the instrument has remained unpaid, or
- (c) the dividend has remained unpaid,

as the case may be.

Clause 112 was formerly clause 117, subclause 5 and 6 and is redrafted with the same effect. Carried.

Clause 113 was formerly clauses 91, 93 and 94. Carried.

Clause 114 carried, nothing new.

Clause 115 carried.

Clause 116.

116. The bank shall, within thirty days after the end of each calendar year, make a return to the Minister of its shareholders as at the end of the financial year of the bank ending in that calendar year, showing

- (a) the name of each shareholder who holds five hundred or more shares of the capital stock of the bank,
- (b) the city, town or other place of the recorded address of each such shareholder,
- (c) the number of shares held by him and the amount, if any, remaining to be paid thereon, and
- (d) the total number of all other shareholders of the bank, the total number of shares held by them and the total amount, if any, remaining to be paid thereon.

In clause 116 on page 63, line 27, after the word "shareholders" insert the words "according to its books." It will now read as follows: "The bank shall, within thirty days after the end of each calendar year, make a return to the minister of its shareholders according to its books." Clause 116, with that amendment, carried.

Clause 117.

117. (1) In addition to the returns required by sections 103 to 116, the bank shall furnish to the Minister

- (a) the documents required to be sent to him under section 44, subsection (4) of section 58 and subsection (16) of section 61, and
- (b) such other information in such form as the Minister may from time to time require.

(2) The Minister may, in any case of doubt, determine

- (a) the information that is to be included in any classification, and
 - (b) in which classification particular information shall be included,
- in any form prescribed by or under this Act.

(3) The Minister may, in his discretion, extend the time for making a return required by this Act for a period not exceeding thirty days.

Clause 117, line 46, delete the words "from time to time." We have been deleting those words most of the time.

Mr. BENIDICKSON: Line 44.

The CHAIRMAN: My copy indicates it is line 46. With that amendment, clause 117 carries.

Clause 118.

118. (1) A return made by a bank under sections 103 to 111 shall have annexed thereto as part of the return, a declaration in the form set out in Schedule R, signed

- (a) as to Part I thereof, by the chief accountant or a person authorized to sign in the place of the chief accountant, and

- (b) as to Part II thereof, by the president, a vice-president or a director authorized to sign in the place of the president, and by the general manager or a person authorized to sign in the place of the general manager.

(2) A return made by a bank under section 114, 115 or 116 shall be signed by the president, a vice-president or a director authorized to sign in the place of the president, and by the general manager or a person authorized to sign in the place of the general manager.

Clause 118 redrafted. Formerly it was clause 118, subclauses 1 and 2. The provisions are the same. No change, carried.

Clause 119 carried.

119. (1) Each return made under section 109, 110, 111 or 116 and a compilation for all banks of the information contained in the returns made under sections 106, 107 and 108 shall be laid before Parliament within fifteen days after the expiry of the time prescribed by or pursuant to this Act for making the return or, if Parliament is not then in session, within fifteen days after the commencement of the next ensuing session.

(2) The Minister shall, in each year, cause the returns made under section 109, 110 or 111 in that year and the compilations of the information contained in the returns made under sections 106, 107 and 108, to be published in the *Canada Gazette* within thirty days after the expiry of the time prescribed by or pursuant to this Act for making the return.

Mr. ELDERKIN: I have an amendment to subsection 2. Before the word "returns" in line 30 of page 64, insert the words "information contained in the."

Mr. BENIDICKSON: That is not referred to in the minutes.

Mr. ELDERKIN: It will now read: "The minister shall, in each year, cause the information contained in the returns made under section 109, 110 or 111 in that year and the compilations of the information contained in the returns made under sections 106, 107 and 108, to be published in the *Canada Gazette* within thirty days after the expiry of the time prescribed by or pursuant to this Act for making the return."

The CHAIRMAN: Carried.

Clause 120, redrafted, nothing new, carried.

Clause 121, no change, carried.

Clause 122, no change, just redrafted, carried.

Clause 123, no change, carried.

Clause 124, no change, carried.

Clause 125, no change, carried.

Clause 126, no change, carried.

Clause 127, no change, carried.

Clause 128, no change, carried.

Clause 129, no change, carried.

Clause 130, no change, carried

Clause 131.

131. A liquidator appointed to wind up the affairs of a bank shall furnish to the Minister such information, in such form, relating to the affairs of the bank, as the Minister may from time to time require of him.

Clause 131 on page 67, in line 20, delete the words, "from time to time." There it is again! Subject to that, clause 131 carries.

Clause 132.

132. (1) Notwithstanding the *Winding-Up Act*, where the business of the bank is being wound up, the liquidator shall, before the final winding-up thereof, pay to the Minister on demand any amount that is payable by the liquidator to a creditor or shareholder of the bank to whom payment thereof has not, for any reason, been made.

(2) The Minister shall pay to the Bank of Canada any amounts paid to him under subsection (1).

(3) The Minister shall, forthwith upon the coming into force of this Act, pay to the Bank of Canada out of the Consolidated Revenue Fund an amount equal to

(a) any amount that has been paid to the Minister before the coming into force of this Act representing an amount payable by a liquidator to a creditor in respect of the winding-up of a bank specified in Schedule O less any principal amounts thereof paid out of the Consolidated Revenue Fund by the Minister under statutory authority, and

(b) any amount to which a person is entitled under *The Home Bank Creditors' Relief Act, 1925*, that has not, at the coming into force of this Act, been paid to the person entitled thereto, which shall be deemed to have been a claim against the liquidator and to have become payable on the 17th day of August, 1923.

(4) Payment by a liquidator to the Minister under this section discharges the liquidator and the bank in respect of which the payment is made from all liability for the amount so paid and payment by the Minister to the Bank of Canada under this section discharges the Minister from all liability for the amount so paid.

(5) Subject to subsection (4) of section 18 of the *Bank of Canada Act*, where payment has been made to the Bank of Canada of an amount under this section, the Bank of Canada, if payment is demanded by the person who, but for this section, would be entitled to receive payment of that amount from the liquidator or the Minister, is liable to pay at its head office an amount equal to the amount so paid to it, with interest thereon for the period, not exceeding twenty years, from the day on which the payment was received by the Bank of Canada until the date of payment to the claimant, at such rates and computed in such manner as the Treasury Board determines, and such liability may be enforced by action against the Bank of Canada in any court of competent jurisdiction in Canada.

Clause 132—there is a change.

Mr. MACDONNELL: Could you give any explanation as to why we are deleting the words "from time to time"?

The CHAIRMAN: That is for Mr. Benidickson.

Mr. BENIDICKSON: We discussed that at our last meeting and in the earlier clauses of the bill we made several changes of the same nature and it was again a question of redundancy. If the minister can do this thing at all, he can surely do it from time to time. They were thought to be excess words.

The CHAIRMAN: In clause 132 on page 67, delete lines 23 and 24 and insert the following: "... shall pay to the minister on demand and in any event before the final winding-up thereof, any amount that is payable by the ...". The clause will now read: "Notwithstanding the Winding-up Act, where the business of the bank is being wound up, the liquidator shall pay to the minister on demand and in any event for the final winding-up thereof, any amount that is payable by the liquidator to a creditor or shareholder of the bank to whom payment thereof has not, for any reason, been made."

Subject to that change, carried.

Mr. CAMERON (*Nanaimo*): On this, I wonder if Mr. Elderkin could give us an explanation of schedule "O": which refers to that clause 132?

The CHAIRMAN: He will give it when we reach it.

Mr. CAMERON (*Nanaimo*): I was just curious.

The CHAIRMAN: Yes, Mr. Elderkin said he would explain it to us when we come to it.

Clause 133 carried.

Mr. MACDONNELL: No change?

The CHAIRMAN: No.

Clause 134 has been redrafted but has the same effect. Carried.

Mr. MACDONNELL: Did you tell us clause 133 was unchanged?

The CHAIRMAN: It is similar to the provisions of clause 72 and 73 of this bill.

Mr. MACDONNELL: I am talking about 133?

The CHAIRMAN: Yes, it is the same as clause 72 (3) of this bill.

Mr. ELDERKIN: No, it is the same as clause 120 except subclause 1 paragraph (a) referring to the payment by the liquidator to the Bank of Canada on the liability for outstanding notes which is new and is similar to the provisions in subclause 72(3) of this bill which refers to the same subject.

Mr. MACDONNELL: Substantially there is no change.

Mr. ELDERKIN: Only to bring in the technique for payment of outstanding foreign note circulation in cases of liquidation.

The CHAIRMAN: There will be a motion brought on later today for some renumbering of the sections.

Clause 134 is redrafted, but has the same effect it has now. Carried.

Clause 135 is now clause 156.

Mr. ELDERKIN: The reason for this renumbering that is now being put forward is that heretofore the penalty sections in the Act did not follow in the sequence of the sections to which they relate and we are now endeavouring to renumber them so they will do so.

Mr. MACDONNELL: I want to ask this: clause 133, subclause 1 (a) says: "... pay, in accordance with arrangements prescribed by the Treasury Board, to a person in that country, an amount in the currency of that country equal to the amount of the notes..." Now, in the next subclause it speaks of the rate of exchange to be fixed by the Treasury Board. What about subclause 1 (a)?

Mr. ELDERKIN: There is no rate of exchange there because it is a note liability in that country and therefore the amount deposited in that country to retire the notes would be in the currency of that country, but where such an arrangement is not possible then it may be required that the liquidator pay to the Bank of Canada the equivalent in Canadian funds of the outstanding note circulation.

Mr. MACDONNELL: Would you give us an illustration? You say that where notes are in circulation in a country outside Canada there are cases where they have deposited money at a certain rate of exchange to take care of them?

Mr. ELDERKIN: No, there have not been any cases. This provides for the case if it should happen. For instance, if one of the banks that operates in the West Indies and which has an outstanding note circulation should fail it could be provided by a Treasury Board minute that the liquidator shall pay to another bank in the West Indies, let us say, an equivalent sum and the bank would redeem the notes of the bank that had failed.

Mr. MACDONNELL: But this says the liquidator "shall"?

Mr. ELDERKIN: If you continue down to line 39 it says: "whichever the Treasury Board requires."

The CHAIRMAN: On page 70, clause 136 now becomes 135. Clause 135 carried.

Clause 137 becomes 136 and there is a change on page 70.

137. Every person, whether principal, broker or agent, who sells or transfers or attempts to sell or transfer any share of the capital stock of a bank

(a) knowing that the person making the sale or transfer, or that the person in whose name or on whose behalf the sale or transfer is made, is not at the time of the sale or attempted sale the registered owner, or

(b) without the assent to the sale of the registered owner thereof, is guilty of an offence against this Act.

Mr. MACDONNELL: You have lost me entirely.

The CHAIRMAN: We will use the old numbers.

Clause 137 is the clause we are speaking of. Delete line 28 and insert the following therefore: "...is guilty of an offence against this Act unless under the bylaws of the bank it is unnecessary that transfers of shares of its capital stock be made in the books of the bank." The clause will now read as follows: "(b) ... without the assent to the sale of the registered owner thereof, is guilty of an offence against this Act, unless under the bylaws of the bank it is unnecessary that transfers of shares of its capital stock be made in the books of the bank."

That is the change. Carried.

Clause 138 carried.

Clause 139.

139. Every person who issues or re-issues, makes, draws or endorses any bill, bond, note, cheque or other instrument, intended to circulate as money, or to be used as a substitute for money, is liable to a penalty of five hundred dollars.

In clause 139 the penalty is increased from \$400 to \$500. Carried.

Clause 140, no change, carried.

Clause 141, no change, carried.

Mr. MACDONNELL: Mr. Chairman, concerning clause 140—

The CHAIRMAN: Part of the old section is deleted as obsolete but there is no change in effect.

Mr. MACDONNELL: Do you mean to say if I have a Bank of Canada note in my pocket I cannot do as I like with it?

Mr. PHILPOTT: Better not tell anybody!

Mr. FRASER (*Peterborough*): Put it in your sock.

Mr. MACDONNELL: What about the story of the man who lighted a cigar with a half of a Bank of Canada note and took the other half of the note in and redeemed it? Do you mean that this cannot be done anymore?

Mr. FRASER (*Peterborough*): He is a non-smoker.

The CHAIRMAN: Clause 141, the same effect, carried.

Clause 142.

142. An auditor who accepts remuneration from a bank, contrary to sub-section (17) of section 61, and every bank paying such remuneration is guilty of an offence against this Act.

Clause 142 has been redrafted to provide a penalty only for taking remuneration. Carried.

Clause 143 has no change, carried.

Clause 144 is new. It was formerly in the Bank Act as subclause 4 of clause 24. Carried.

Mr. TUCKER: I see in the old Act there was a provision that the Bank of Canada notes had to be disinfected and sterilized and so on. That has been dropped. Is it felt now that they are so pure that they do not need sterilization?

Mr. ELDERKIN: I think the answer to that is the banks are only too anxious to get rid of notes that are not in good shape and they send them in sometimes before the Bank of Canada would like to have them.

Clause 145, no change, carried.

Clause 146, no change, carried.

Clause 147, no change, carried.

Clause 148.

148. Every person who, having possession or control of property mentioned in or covered by any warehouse receipt, bill of lading or any security given to the bank under section 88, and having knowledge of such receipt, bill of lading or security, without the consent of the bank in writing before the loan, advance, debt or liability thereby secured has been fully paid

(a) wilfully alienates or parts with any such property, or

(b) wilfully withholds from the bank possession of any such property if demand for such possession is made by the bank after default in payment of such loan, advance, debt or liability,

is guilty of an indictable offence and liable to imprisonment for a term not exceeding two years.

There is a change in clause 148 at the top of page 73, line 1. Delete the words "...default in payment of..." and substitute the words "failure to pay" and it will now read: "...the bank after failure to pay such loan, advance, debt or liability...". With that amendment, carried.

Clause 149, no change, carried.

Mr. BENIDICKSON: Excuse me, Mr. Chairman. On clause 149 do we not have the insertion of a heading?

Mr. ELDERKIN: I will cover that in the change of clauses.

The CHAIRMAN: Clause 150.

150. (1) Every bank that violates any of the provisions of paragraph (b), (c), (d) or (e) of subsection (2) of section 75 is liable to a penalty of five hundred dollars in respect of each violation.

(2) Every bank that violates the provisions of paragraph (f) or (g) of subsection (2) of section 75 is liable to a penalty not exceeding five thousand dollars in respect of each violation.

(3) Except as authorized by this Act, if any director of a bank is present or votes at a meeting of the board during the time at the meeting when loans or advances to himself or any firm, corporation of which he is a member or director are under consideration, the bank and the director are each liable to a penalty of five thousand dollars, and such director shall forthwith vacate his office of director and is not eligible for election as a director of a bank within a period of five years after the date of the said meeting of the board.

(4) Every bank that, and every officer or employee of a bank, who violates the provisions of subsection (4) of section 75 is liable to a penalty of five hundred dollars in respect of each violation.

There is a change in clause 150, line 24. Delete the words: "... not exceeding ..." and substitute the word "of". Delete line 29 and substitute the following: "or any firm of which he is a member or any corporation of which he is a director." The clause will now read as follows: "Every bank that violates the provisions of paragraph (f) or (g) of subsection (2) of section 75 is liable to a penalty of five thousand dollars in respect of each violation. (3) Except as authorized by this Act, if any director of a bank is present or votes at a meeting of the board during the time at the meeting when loans or advances to himself or any firm of which he is a member or any corporation of which he is a director are under consideration, the bank and the director are each liable to a penalty of five thousand dollars, and such director shall "forthwith vacate his office of director and is not eligible for election as a director of a bank within a period of five years after the date of the said meeting of the board."

Subject to that amendment, carried.

No change in clause 151, carried.

Clause 152.

152. (1) Every bank that fails

- (a) to make a return required to be made by it under this Act, or
- (b) to furnish to the Minister any information required to be furnished by it under subsection (1) of section 117, in the form and manner, within the time and containing the information prescribed by or pursuant to this Act, is liable to a penalty of fifty dollars for each day after the expiry of the time so prescribed for making the return or furnishing the information during which the failure continues.

(2) If any return required to be made or any information required to be furnished under or pursuant to this Act is transmitted by post, the date appearing by the post office stamp or mark upon the envelope or wrapper enclosing the return or information received by the Minister or by the Bank of Canada, as the date of deposit in the post office of the place at which the head office of the bank was situated shall be taken *prima facie* for the purpose of subsection (1) to be the day upon which the return was made or the information was furnished.

There is a change in clause 152. Delete lines 14 and 15 and insert the following: "... transmitted by post, the date appearing by the stamp or mark of the post office in Canada upon the envelope or wrapper enclosing the ..."

and by deleting line 18. I will now read the clause as amended: "If any return required to be made or any information required to be furnished under or pursuant to this Act is transmitted by post, the date appearing by the stamp or mark of the post office in Canada "upon the envelope or wrapper enclosing the return or information received by the minister or by the Bank of Canada, as the date of deposit in the post office shall be taken as *prima facie* for the purpose of subsection (1) to be the day upon which the return was made or the information was furnished."

Clause 153, no change, carried.

Clause 154, no change, carried.

Clause 155, no change, carried.

Clause 156, no change, carried.

Clause 157, no change, carried.

Clause 158 has been revised to conform with the penalties in the Criminal Code of Canada. Carried.

Clause 159, no change, carried.

Clause 160.

160. (1) The *Bank Act*, chapter 12 of the Revised Statutes of Canada, 1952, and *The Home Bank Creditors' Relief Act*, 1925, chapter 45 of the statutes of 1925, are repealed.

2. Notwithstanding subsection (1), the charter of the Home Bank of Canada remains in force for the purpose of enabling the liquidator of the bank to wind up the business of the bank.

The Home Bank Creditors' Relief Act will not be wound up for some time yet. That is subclause 2. Subject to that carried.

The last clause is 161, and proclamation is planned as of July 1, 1954. Carried.

Mr. APPLEWHAITE: What happens if they forget to proclaim it?

The CHAIRMAN: Your deposits are forfeited. Mr. Elderkin, will you give the re-numbering amendment to the committee?

Mr. ELDERKIN: Clauses 135 to 136 are to be re-numbered as follows:

135 as 156

136 as 135, retaining the heading "Commencement of Business".

137 as 136, retaining the heading "Sale and Transfer of Shares".

138 as 141, retaining the heading "Issue and Circulation of Notes".

139 as 142

140 as 143

141 as 137, retaining the heading "Annual Statement".

142 as 138, retaining the heading "Auditor".

143 as 139, retaining the heading "Inspection."

144 as 140, retaining the heading "Cash Reserves".

145 as 149

146 as 148

147 as 146; the heading "Warehouse Receipts, Bills of Lading and Other Security" now appearing over 145 to be inserted over this clause.

148 as 147

149 as 145

150 as 144, retaining the heading "Prohibited Business".

151 as 150

152 as 151, retaining the heading "Returns".

153 as 152

154 as 153, retaining the heading "Suspension of Payment".

155 as 154

156 as 155, retaining the heading "Undue Preference to the Bank's Creditors".

The CHAIRMAN: For the general purposes of discussion I will try and adhere to the old numbering, otherwise we will become very confused. We will understand each other if we all use the old numbers. Mr. Tucker you have something?

Mr. TUCKER: Yes. In clause 152 of the old Act a penalty was provided not exceeding \$1,000. That meant that if there was an offence against the Act the courts would decide whether the penalty would be up to five years or \$1,000. You are now providing that the penalty on summary conviction is a fine not exceeding \$500 or on indictment it is the same as it is in the existing Act. Personally, I do not think that is good legislation. I do not think it is right that it should be in the power of the officers in charge of the administration of justice to be able to decide whether the maximum is going to be \$500 or six months or whether it is going to be \$1,000 or five years. In other words if the people in charge of the administration of justice decide they are going to proceed by summary conviction then the maximum, of course, is six months. On the other hand, if they make up their minds they are going to proceed by indictment as an indictable offence, then immediately the maximum is raised to five years. I do not think it is right to give that power to those enforcing the laws. I think it should be made an offence and the amount of the penalty should be set by Act of parliament and administered by the courts. I do not think it is good legislation to leave that in the hands of those administering justice.

Mr. ELDERKIN: I can only say this, Mr. Tucker, because I am not familiar with all of the reasons, the Department of Justice inserted this and my understanding was that in doing so they were following similar provisions in the Criminal Code and that they thought the legislation should be similar.

The CHAIRMAN: That is what they call "uniformity of legislation."

Mr. TUCKER: That may be so, but I just wanted to say that I do not think it should be within the power of the crown prosecutor of the province to make up his mind to proceed on summary conviction in one case and by indictment in another, and by such decision decide the maximum penalties. I do not think that power should be given to the Crown prosecutors or the persons in charge of initiating proceedings. Sometimes, in fact, in some of these cases it is in the hands of the mounted police and they can decide what the maximum will be by virtue of the provisions of a law like this and I think it is unsound.

Mr. ELDERKIN: Mr. Tucker, you are aware that the new insertion (a) is a relief from the former and not an increase?

Mr. TUCKER: I suggest it should provide for the penalty either on summary conviction or by indictment and then it is a matter for the courts to decide what the penalty shall be and not the person who is acting as agent for the attorney general. However, it is just something I wanted to protest against because I do not think it is sound.

Mr. APPLEWHAITE: On the question of penalties on page 73, the original number was 150, and we amended it by striking out the words "not exceeding." Is it intended that the penalty shall be a flat \$5,000 with no discretion?

Mr. ELDERKIN: That is right. That was the intent of the whole amendment.

Mr. APPLEWHAITE: Why no discretion in that case?

Mr. ELDERKIN: There is no discretion. They are all subject to a penalty.

Mr. APPLEWHAITE: Not under subclause (a)?

Mr. ELDERKIN: Not in offences against the Act but in all other places it specifies the exact penalty.

Mr. TUCKER: But there is a discretion when you say a person is liable to a fine of a certain amount—he is liable to a fine up to that amount and striking that out does not change the meaning at all.

Mr. APPLEWHAITE: That is what I am asking. I am asking whether if it is the intention to take away the discretion and if the prosecution is obliged under clause 150, subclause 2, where the accused is found guilty, if there must be a penalty of \$5,000 and not a cent less?

Mr. ELDERKIN: You are out of my depth. It is a legal point which I cannot answer.

Mr. APPLEWHAITE: Why take out the words, if that is not your intention, and leave them in the other places?

Mr. ELDERKIN: They are not in any other place except in the case of an offence against the Act.

The CHAIRMAN: Clause 158 follows the wording of the Criminal Code and Mr. Tucker was quite right when he said not exceeding \$500.

Mr. TUCKER: If it was the intention of the department that that should be a minimum fine, instead of "not exceeding" it should say "not less than".

Mr. BENEDICKSON: That would permit someone to make it \$25,000.

Mr. HUNTER: Maybe that is a good idea.

Mr. TUCKER: If you wanted to set the top limit—

The CHAIRMAN: We will have a comment on it later. On page 77, in schedule "A", provision is made for the additional name under which the bank is authorized to carry on business. Carried.

Schedule "B", no change, carried.

Page 78, schedule "C" to schedule "K" have no changes and carry.

Schedule "C" carries over from page 78 to schedule "K" on page 85.

Schedules "D", "E", "F", "G", "H", "I", "J", and "K" carried.

Schedule "L" on page 85 is new and relates to loans under section 82 of the Bank Act. Carried.

There are some amendments to schedule "M".

SCHEDULE M

(Section 103)

Return of the assets and liabilities of the.....
 Bank as at the.....day of.....19.....
 (In Canadian currency; thousands of dollars)

ASSETS

1. Gold and subsidiary coin in Canada.
 2. Gold and subsidiary coin outside Canada.
 3. Notes of and deposits with Bank of Canada.
 4. Government and bank notes other than Canadian.
 5. Deposits with other banks in Canadian currency.
 6. Deposits with other banks in currencies other than Canadian.
 7. Cheques and other items in transit, net.
 8. Government of Canada treasury bills.
 9. Other Government of Canada direct and guaranteed securities maturing within two years, not exceeding market value.
 10. Government of Canada direct and guaranteed securities maturing after two years, not exceeding market value.
 11. Canadian provincial government direct and guaranteed securities, not exceeding market value.
 12. Canadian municipal and school corporation securities, not exceeding market value.
 13. Other Canadian securities, not exceeding market value.
 14. Securities other than Canadian, not exceeding market value.
 15. Mortgages, insured under the National Housing Act.
 16. Call and short loans in Canada to brokers and investment dealers, secured.
 17. Call and short loans outside Canada to brokers and investment dealers, secured.
 18. Loans to Canadian provincial governments.
 19. Loans to Canadian municipalities and school corporations, less provision for estimated loss.
 20. Other current loans in Canada, less provision for estimated loss.
 21. Other current loans outside Canada, less provision for estimated loss.
- There are some amendments to schedule "M". The first one is strike out the word "subsidiary" in item 1. The second is strike out the word "subsidiary" in item 2. The first two items in schedule "M" "assets" will read as follows: "1. Gold and coin in Canada..." "2. Gold and coin outside Canada".

On page 86, in schedule "M" in item 15, after the word "mortgages" insert the words "and hypothecs". Item 15 will now read as follows: "Mortgages and hypothecs insured under the National Housing Act".

Mr. ELDERKIN: There is an additional amendment to item 15 as follows:—by inserting after "Act" in Asset item 15, a comma and "1954, less provision for estimated loss".

Mr. TUCKER: That is the only case where you are providing for possible losses in the whole statement of assets?

Mr. ELDERKIN: No, it is provided for all loans except the call loans which are covered by negotiable security and the loans to provincial governments, you will note in item 20, other current loans in Canada, that these are less provision for estimated loss, and so on.

Mr. TUCKER: Item 16 for example?

Mr. ELDERKIN: They are secured by negotiable security; there is no loss involved in them.

Mr. HUNTER: But after item 18 you put in estimated loss?

Mr. ELDERKIN: No, not on loans to provincial governments.

Mr. HUNTER: I was just thinking of Alberta.

Mr. TUCKER: Why put it in one case and not the other? That I do not understand.

Mr. ELDERKIN: Because there is a possibility of loss in the other cases, and there is not considered to be any possibility of losses where it is not provided.

The CHAIRMAN: Schedule "N" on page 88, in the last line.

Mr. ELDERKIN: We have an additional amendment on page 87 by deleting the second item of supplementary information on page 87 which reads "Contingent liability on bills rediscounted with the Bank of Canada." That is a title which is never used and therefore it is not necessary to put it in.

Mr. TUCKER: But there is provision in the Bank of Canada Act for it to be used.

Mr. ELDERKIN: That is quite right, but it is highly improbable that a bank would use it as long as it has security in its portfolio, because it is so much easier to use the security as a borrowing means.

Then the last item of the supplementary information is to be reworded, so as to read:

Branch returns antedating the last day of the month used in the preparation of this return;

Branch

Date of return.

It is simply a matter of wording.

The CHAIRMAN: Schedule N

SCHEDULE N

(Section 58 (1) (a))

Statement of the assets and liabilities of the.....

Bank as at the.....day of.....19....

(In Canadian currency, omitting cents)

ASSETS

1. Gold and subsidiary coin.
2. Notes of and deposits with Bank of Canada.
3. Government and bank notes other than Canadian.
4. Deposits with other banks.
5. Cheques and other items in transit, net.
6. Government of Canada direct and guaranteed securities, not exceeding market value.
7. Canadian provincial government direct and guaranteed securities, not exceeding market value.
8. Other securities, not exceeding market value.
9. Mortgages, insured under the National Housing Act.
10. Call and short loans to brokers and investment dealers, secured.
11. Other current loans, less provision for estimated loss.
12. Non-current loans, less provision for estimated loss.

13. Bank premises at cost, less amounts written off.
14. Share of and loans to corporations controlled by the bank.
15. Customers' liability under acceptances, guarantees and letters of credit, as per contra.
16. Other assets.

LIABILITIES

1. Deposits by Government of Canada.
2. Deposits by Canadian provincial governments.
3. Deposits by other banks.
4. Personal savings deposits payable after notice, in Canada, in Canadian currency.
5. Other deposits.
6. Advances from Bank of Canada, secured.
7. Acceptances, guarantees and letters of credit.
8. Other liabilities.
9. Capital paid up.
10. Rest account.
11. Undivided profits.

In item 1, the word "Subsidiary" is to be struck out; and under No. 9 there is to be the same change made as in No. 15.

Mr. ELDERKIN: Including the one that I read, as well.

The CHAIRMAN: Yes. The same change, exactly the same. It will now now read "Mortgages and hypothecs, insured under the National Housing Act, 1954, less provision for estimated loss."

Mr. HUNTER: No. 15?

The CHAIRMAN: No. 15; and it is in No. 9 of schedule "N". Now schedule "O".

SCHEDULE O

(Section 132' (3))

1. The Home Bank of Canada.
2. The Bank of Vancouver.
3. Le Banque de St. Jean.
4. La Banque de St. Hyacinthe.
5. Ontario Bank.
6. La Banque Ville Marie.
7. Le Banque du Peuple.
8. The Commercial Bank of Manitoba.
9. The Central Bank of Canada.

Mr. ELDERKIN: These banks are, as you realize, those which have failed since Confederation.

Mr. CAMERON: Are there still any liabilities outstanding?

Mr. ELDERKIN: Oh yes, at the present time the receiver-general holds approximately \$75,000 with respect to liabilities concerning these banks.

Mr. CAMERON: That was all? I thought it was all a dead issue long ago.

Mr. STEWART: And has he any assets?

Mr. ELDERKIN: Yes; the bank amount held in trust.

Mr. FLEMING: From now on we had better be more careful in our references to "The Central Bank".

The CHAIRMAN: Yes. Now schedule "P".

SCHEDULE P

(Section 73)

PART I

Name of Bank

1. Bank of Montreal
 - (a) The Molsons Bank
 - (b) The Merchants Bank of Canada
 - (c) The Bank of British North America
 - (d) The Peoples Bank of New Brunswick
 - (e) The People's Bank of Halifax
 - (f) The Exchange Bank of Yarmouth
 - (g) Commercial Bank of Canada
2. The Bank of Nova Scotia
 - (a) The Bank of Ottawa
 - (b) The Metropolitan Bank
 - (c) Bank of New Brunswick
 - (d) The Summerside Bank
 - (e) Union Bank of Prince Edward Island
3. The Bank of Toronto
4. La Banque Provinciale du Canada
 - (a) La Banque Jacques Cartier
5. The Canadian Bank of Commerce
 - (a) The Standard Bank of Canada
 - (b) The Sterling Bank of Canada
 - (c) Bank of Hamilton
 - (d) The Eastern Townships Bank
 - (e) The Western Bank of Canada
 - (f) The Merchants Bank of Prince Edward Island
 - (g) The Halifax Banking Company
 - (h) The Bank of British Columbia
 - (i) The St. Lawrence Bank
 - (j) Gore Bank
6. The Royal Bank of Canada
 - (a) Union Bank of Canada
 - (b) The Northern Crown Bank
 - (c) The Quebec Bank
 - (d) The Traders Bank of Canada
 - (e) United Empire Bank
 - (f) Union Bank of Halifax
 - (g) The Crown Bank of Canada
 - (h) The Northern Bank
 - (i) Commercial Bank of Windsor
 - (j) Merchants Bank of Halifax
7. The Dominion Bank
8. Banque Canadienne Nationale
 - (a) La Banque d'Hochelaga
 - (b) La Banque Nationale

9. Imperial Bank of Canada
 - (a) The Weyburn Security Bank
 - (b) Niagara District Bank
10. Barclays Bank (Canada)

PART II

11. The Home Bank of Canada
12. Banque Internationale du Canada
13. The Bank of Vancouver
14. The Farmers Bank of Canada
15. St. Stephens Bank
16. La Banque de St. Jean
17. La Banque de St. Hyacinthe
18. The Sovereign Bank of Canada
19. Bank of Yarmouth
20. La Banque Ville Marie
21. La Banque du Peuple
22. The Commercial Bank of Manitoba

Notes

1. *The names indented under those of existing banks in Part I are names that have been changed or of banks that have been merged and wound up. The names in Part II are those of banks that have been placed in liquidation and wound up.*

2. *Notes issued by the Ontario Bank intended for circulation in Canada and outstanding are redeemable by The Royal Trust Company, Toronto.*

3. *Notes issued by banks other than the Ontario Bank and those enumerated in this Schedule intended for circulation in Canada and outstanding are not redeemable.*

You will find the amendments in Schedule on page 1196 of the minutes of this committee:

Schedule P,

By replacing, in Part I, the names of banks indented under "1. Bank of Montreal" with the following:

- (a) The Montreal Bank
- (b) The Molsons Bank
- (c) The Merchants Bank of Canada
- (d) The Merchants Bank (Quebec charter)
- (e) The Bank of British North America
- (f) The Peoples Bank of New Brunswick
- (g) The People's Bank of Halifax
- (h) The Exchange Bank of Yarmouth
- (i) Commercial Bank of Canada
- (j) The Commercial Bank of the Midland District
- (k) Bank of the People, Toronto.

By replacing, in Part I, the names of banks indented under "6. The Royal Bank of Canada" with the following:

- (a) Union Bank of Canada
- (b) Union Bank of Lower Canada
- (c) The Northern Crown Bank
- (d) The Quebec Bank
- (e) The Traders Bank of Canada
- (f) United Empire Bank
- (g) Union Bank of Halifax
- (h) The Crown Bank of Canada
- (i) The Northern Bank
- (j) Commercial Bank of Windsor
- (k) Merchants Bank of Halifax
- (l) The Merchants Bank (Nova Scotia charter)

Now, schedule "Q" which is on page 91.

SCHEDULE Q

(Section 106)

Return of current operating earnings and expenses and other information of the.....Bank for the financial year ended.....19...
(In thousands of dollars)

Current Operating Earnings

- 1. Interest and discount on loans.....\$
- 2. Interest, dividends and trading profits on securities....
- 3. Exchange, commission, service charges and other current operating earnings
- 4. Total current operating earnings.....

Current Operating Expenses

- 5. Interest on deposits.....
- 6. Remuneration to employees
- 7. Provision for taxes
- 8. Contributions to pension fund
- 9. Provision for depreciation of bank premises.....
- 10. All other current operating expenses (exclusive of losses or specific provision for losses or for general contingencies).
- 11. Total current operating expenses (exclusive of losses or specific provision for losses or for general contingencies).

Supplementary Information

- 12. Dividends to shareholders
- 13. Net amount of current operating earnings available for losses or specific provision for losses and for general contingencies.
- 14. Net amount of capital profits, including non-recurring profits.
- 15. Average annual amount required for losses or specific provision for losses on loans, securities and other assets, less recoveries during the twenty-five financial years ending with the year to which this return relates....

The period is changed from 15 to 25 years. There is no other change. Carried.

Schedule "R"? Carried.

Mr. ELDERKIN: It was not amended.

The CHAIRMAN: No, we will deal this afternoon with those clauses which stand—I will give you a memorandum of them, there is one section which was stood by Mr. Macdonnell in Bill 297.

Mr. HUNTER: Have you a list of them handy?

The CHAIRMAN: I have the list, and I will give you the clauses that we have allowed to stand in this bill. They are, 21, 36 to 40; 75, 78, 82, 85, 86, 88, 94; that is all.

Mr. Benidickson will have to attend to the budget resolutions in the house this afternoon, the Hon. Mr. Abbott will be here this afternoon. After we have finished with this act, we will deal with the "Quebec Savings Banks Act" with which you will find very little trouble. We were sitting in committee when the Quebec Savings Banks Act came up in the House. Some of you may have missed its presentation in the house. You will find in Hansard for Tuesday, April 6, a statement by the minister and some comment by Mr. Macdonnell. It is not very complicated and it follows the Bank Act pretty well. We are now adjourned until 3.30 this afternoon.

Mr. FLEMING: I was wondering in view of the fact that the budget resolutions are coming before the House this afternoon and that they concern a number of members of this committee, if it would not be better if this committee should meet this evening instead of this afternoon.

The CHAIRMAN: The Senate is asking us for business. They are really begging us to send these bills over to them.

Mr. FLEMING: I was not suggesting that we defer them beyond today, but I thought perhaps if we met this evening rather than this afternoon it would make it possible for a number of members of this committee to be here who otherwise might have to be in the House for the budget resolutions.

Mr. BENIDICKSON: There is an urgency to get this legislation completed and there is no assurance that we will be finished this afternoon. And if we abandon the afternoon sitting, even though we may sit tonight, we have lost the chance of completing it today.

The CHAIRMAN: Yes, and in addition to that, we have to make way for the Veterans Affairs committee which is starting sitting tomorrow. However, if you want anything held, I will hold it.

Mr. FLEMING: Mr. Benidickson cannot be in both places and Mr. Macdonnell feels that he must be in the House for the budget resolutions. Moreover, some of these sections have been stood and he wants an opportunity to speak to them.

The CHAIRMAN: That was in respect to the Bank of Canada Act. If he comes in early we will deal with it immediately. I want the minister to make some comment on it. If you wish me to stand any sections while you are in the House, I will see that they stand over.

Mr. TUCKER: We will take the Bank of Canada Act first?

The CHAIRMAN: Yes Section 10, and then go on with bill 338 and if any member is inconvenienced, we will "convenience" him.

The committee is now adjourned until 3.30.

AFTERNOON SESSION

The CHAIRMAN: Gentlemen, I see a quorum. We have passed all of the Bank of Canada Act with the exception of clause 10. Mr. Macdonnell has handed me two amendments.

Mr. MACDONNELL: Would you please read first the one with reference to the Currency Mint and Exchange Act?

The CHAIRMAN: Mr. Macdonnell moves, seconded by Mr. Fraser that section 23(1) of the Bank of Canada Act as set out in clause 10 of the Bill be amended by inserting at the beginning thereof the following words:

Subject to the terms of part 3 section 25 of the Currency Mint and Exchange Act.

Mr. MACDONNELL: May I explain that very briefly?

The CHAIRMAN: Yes.

Mr. MACDONNELL: If you look at page 9 of Bill 297, I will read section 23. (1):

23. (1) The Bank shall maintain a reserve against its outstanding notes and deposit liabilities consisting of its holdings of gold coin and bullion and foreign exchange, and the amount of the reserve held in the form of gold coin and bullion shall always be not less than twenty-five per cent of the outstanding notes and deposit liabilities of the Bank.

But the Currency Mint & Exchange Act Part 3 Sec. 25 (1) nullifies this in the following terms:

Notwithstanding Sec. 23 of the Bank of Canada Act, the Bank of Canada is not, unless the Governor in Council otherwise prescribes, required to maintain a minimum or fixed reserve ratio of gold or foreign exchange to its liabilities.

Now, Mr. Chairman, it will be readily apparent that all I am suggesting in the amendment is what might be called disclosure. If a banker or anyone else in London or in Paris were to read the Act they would be entitled to believe it provided a 25 per cent gold reserve and the words I suggest are purely what you might call a disclosure.

Hon. Mr. ABBOTT: I think that is probably right. I have not given it any consideration. I am inclined to think you are probably right, Mr. Macdonnell, but I cannot see that it adds very much to the bill. I would not want to agree to the amendment without giving it a little more thought. Of course this was disclosed, you may remember, on the debate on the Currency, Mint and Exchange Act and it was discussed at that time.

Mr. MACDONNELL: Yes. May I suggest to the minister when he is considering it that he would not want to have any relevant fact left out and I think this is a relevant fact for anyone who picks up the Bank of Canada Act and proceeds to read it. Shall it stand over?

The CHAIRMAN: It cannot stand over, we will have to deal with it.

Mr. FRASER (*Peterborough*): Could the minister have a few hours to think it over?

Hon. Mr. ABBOTT: I have been thinking it over and I do not believe I would change in my thinking very much, Mr. Fraser, if I thought it over for a while longer.

Mr. FLEMING: Oh, a closed mind?

Hon. Mr. ABBOTT: No, not necessarily a closed mind, but I see no particularly useful purpose to be served by the amendment. I will leave it to the committee.

Mr. MACDONNELL: May I ask this? Is it wise for us to have an Act on the statute books which in fact contains a gross misrepresentation? Would the minister when he was in private practice have approved a prospectus containing a gross misrepresentation?

Hon. Mr. ABBOTT: No, it does not contain a gross misrepresentation. There are a great many statutes which are affected by the provisions of other statutes and this is one of them.

The CHAIRMAN: Gentlemen, all those in favour of the amendment? Contrary, if any?

Lost.

Mr. FRASER (*Peterborough*): They hesitated a little bit, too, Mr. Chairman.

The CHAIRMAN: It has been moved by Mr. Macdonnell seconded by Mr. Fleming;

That section 23 of the Bank of Canada Act, as set out in clause 10 of the bill, be amended by adding as sub-section 3 thereof the following:

The total of notes and deposit liabilities of the bank shall at no time exceed the total amount of such notes and deposit liabilities outstanding on the day that the bill receives Royal Assent plus 10 per cent thereof.

Would you explain, Mr. Macdonnell?

Mr. MACDONNELL: This is the point I raised first of all with the governor of the bank and secondly with the minister and I would like very briefly to review the matter. In the first place, it is in the minds of everyone that this gold reserve we have just been talking about was recommended by the able commission which reported on the Bank Act and to whose advice the set-up of the Bank Act was due. What commission was headed by Lord Macmillan, and the other members were Mr. J. E. Brownlee, presently the head of the United Grain Growers, Sir Charles Addis of the Bank of England, Sir Thomas White, a former Minister of Finance of Canada, and Mr. Beaudry Leman of Montreal. The report was not unanimous but anyway it was under their auspices that the bank was set up and this clause was contained in it. Those men recommended that this reserve was a wise and prudent measure. The advice, as we know, was accepted in the letter and disregarded in practice. I am not sure the disregard in practice began at once. I am inclined to think that for some years the reserve was maintained, but in 1939 or 1940 the requirement was set aside by order in council and from that time on it was disregarded and now of course it has been entirely nullified by the Currency Mint and Exchange Act in the clause I read. As the governor of the bank and the Minister of Finance already admitted before this committee we now have a situation where it is in the power of a few men to increase the money supply of Canada without limitation. Though you will remember that the governor of the bank said rather jocularly that the governor of the bank might resign and that might be a limitation.

There are many people, competent people, who have devoted a great deal of thought to financial matters who believe that the absence of a reserve of this kind is a very great danger indeed. I am sure you have all read the views of those who suggest gold backing and think our present managed currency is a most insecure foundation for a sound money system. The question still arises, even if we have to accept managed money, who is to do the managing? Now the minister, in answer to my question, replied "parliament" and I think he also said "the electorate". I suggest to the minister

that is not a practical answer. It has been suggested sometimes in the House that we control the C.B.C. because we get a report from them once a year. However, we do not in fact control them except in the most formal manner of speaking. The minister also suggested the voters. The voters do come along every few years and express their will but I do not think we can say there is any day to day control by the voters, and therefore I find those answers from the minister—and to the extent he did answer,—the answers from the governor of the bank unsatisfactory.

The purpose of this amendment is to fix a limit at which the control comes back for the moment to the citizens. They have a chance to take another "look-see"—the light is turned on for them to stop and have a look. In other words when this limit is reached the matter will have to come back to parliament.

I think we are just being unrealistic if we make ourselves believe that politics can never come into the consideration of a managed currency. I suppose it is not unfair to our brethern south of the international boundary line to say politics is entering very, very strongly into the management of their currency today. We all know that in the last few months their rate of interest has plunged downwards and the price of their bonds has soared upwards perhaps without precedent in ordinary times. I think that is because political considerations are entering in and who is to say they are not entering in?

My suggestion is that at a certain point the control of our currency, so to speak, comes back for the moment into the hands of the elected representatives of the electorate. It is not left to the Minister of Finance and the Bank of Canada. I said when this matter first came up that we might run into a government which is not as good as this government considers itself to be, a government of irresponsible people and we should not ignore this possibility. Now, to just look at what happens elsewhere, we know there are competent people elsewhere who think it is desirable—

Mr. HELLYER: How do you know they are competent?

Mr. MACDONNELL:—to have limitations—

Mr. HELLYER: Who are the people?

Mr. MACDONNELL: The United States has quite definite limitations. Of course, you will say that it is very easy for them at the top level with their huge holding of gold but they do have limitations at the lower levels of banking, too. We know that the bankers at the lower levels have to maintain certain reserves, the reserve for the federal reserve system is 25 per cent in gold, coins, notes and deposits. When you come to the lower levels, here are the reserves:

Central reserve city banks	22 per cent
Reserve city banks	19 per cent
Country banks	13 per cent

Now, that covers all the banks related to the federal reserve system. Nearly half the banks of the country are in the federal reserve system and I take it that all the large and important ones are.

Now then, Mr. Chairman, my next question is: what possible harm can come from this? What possible harm? No crises can swoop down on us like an atom bomb so that it takes us completely by surprise. When we are approaching the limit I am suggesting it will be clear to all the responsible people who have to take account of it and furthermore, as we all know, parliament can be summoned within a few days. I suggest, as earnestly as I can, there is no danger whatever in this reservation whereby at a certain

time the people of Canada have a chance to look at their central banking system which is a matter of such vast importance. If it were not, that we have somehow or other got ourselves footed into the belief that we have some divine immunity from injurious inflation, I think we would take this seriously. I have to confess quite frankly I am surprised at the small number of people who take it seriously and I think it is because they have not thought much about it. We have watched inflation wreaking terrible havoc in other countries but we always have felt that those were "lesser breeds without the law" I suppose, and we somehow think we are going to escape. As I said before, we have no reason to believe we have a divine immunity and I think we have a duty as sensible men to protect ourselves by taking precautions. It was very well put to me the other day by a man who is thoughtful in financial matters and who said to me: "That the thought that the long-run value of money might be settled by short-run considerations — in other words, political advantage,—was "frankly terrifying". That was a man whose opinion I value and if I thought it was necessary to give his name, which I do not, you would value it, too.

As I said, we should not think political considerations do not enter into this. They enter into everything. Of course they do; how can they help it? We are considering this in political terms, therefore I suggest the limitation I am putting forward can do no harm whatever. I do not think anyone here can suggest it would do any harm and I am suggesting it may do some good.

Concerning the question as to whether this is the best form of check, I know that opinions will differ. If people asked me if there is any better form I think I would have to say that I have tried to give it a good deal of thought and have consulted with a good many other people. There are those people—and very competent people, too—who argue that we are on the highroad to disaster as soon as we get away from gold. I do not know whether they are right or wrong; however, I do not suggest it is politically possible to suggest a gold backing at the moment. I accept the fact that at the moment we have a managed currency and my suggestion only goes to the length of saying that at a certain time the people of the country should have a chance to come in and look and see and ask those who are managing the money to give an account of their stewardship before they are empowered to go on and measure the money supply. I know it will be said that if you ask the ordinary man on the street about his view of this he would not be interested at all and he would tell you his opinion would not be of any value. My answer is this: of course, the ordinary man on the street if he is wise will not think his opinion is of much value, but if he is a wise man he will turn to those who are able to give an opinion. There are those—in addition to officials of the Bank of Canada and of the government—whose opinion is of value. I suggest if the insurance companies, who I think are anxious to be the guardians of sound money, came to the conclusion that political considerations were taking charge of the situation or if they came to the conclusion the situation was unsound could easily arouse in their millions of policy holders interest in the fact that the currency was being tampered with. Therefore, Mr. Chairman, I move this amendment. I hope it may receive favorable consideration. I repeat again, unless someone can suggest that it would do harm I think there is a very strong reason to vote for it because I think anyone will agree with me that there may be circumstances in which it would do good and therefore if no one can suggest circumstances under which it could do harm—it ought to pass.

Mr. HUNTER: I can suggest some way it would do harm!

The CHAIRMAN: I have your motion, Mr. Macdonnell.

Mr. MACDONNELL: May I read it again?

"That section 23 of the Bank of Canada Act, as set out in clause 10 of the bill, be amended by adding as subsection 3 thereof the following:

'The total of notes and deposit liabilities of the bank shall at no time exceed the total amount of such notes and deposit liabilities outstanding on the day that the bill receives Royal Assent plus 10 per cent thereof.'

In other words, Mr. Chairman, if and when the time comes when those in conduct of the financial affairs of the country feel it is necessary to go beyond that additional 10 per cent they will have to come back to parliament and ask for further authority.

Hon. Mr. ABBOTT: Mr. Chairman, I do not think I can add very much to what I said the other day when I was before the committee. I am not in favour of including such a limitation in the Bank of Canada Act. I am not quite clear just what its effects might be. I can contemplate conditions under which it might be most undesirable. I do not know that I need elaborate upon them here. I am not one of those who believes we can protect ourselves against inflation by legislation. I have said that on other occasions and under other circumstances and, as I said the other day before the committee, I am not one who believes we can protect either ourselves or our descendants against our own follies by legislation. With a managed currency as we now have, I really can see no useful purpose which could be served by the inclusion of such a limitation in the Bank of Canada Act and for the reasons I gave the other day I think I would have to oppose it.

Mr. FLEMING: I do hope the committee will realize the effect of what the minister is saying, because he is saying in effect that if conditions should arise where it is thought that an increase beyond 10 per cent should be allowed that it should not be necessary to share that situation with parliament or to seek parliament's approval. Parliament under the amendment will retain the power to make whatever increase in these ratios of gold or foreign exchange to liabilities...

Hon. Mr. ABBOTT: This is a limitation on the notes and deposit liabilities of the Bank of Canada and has nothing to do with gold.

Mr. FLEMING: I think the minister will realize I was just handed the wrong sheet of paper at this moment from which to read the words of the amendment. I will not be so impatient with the minister as to make any further comment about the minister's impatience with me.

Mr. HUNTER: You have been very impatient with the minister.

Mr. FLEMING: If it was thought that the total of notes and deposit liabilities of the bank shall at any time exceed the total amount of such notes and deposit liabilities outstanding on the day that the bill receives Royal Assent plus 10 per cent thereof then of course parliament can deal with that situation. Now, that is the position we are trying to preserve here: that if that situation should arise that it should not be dealt with apart from parliament. Now that situation may arise. No one is attempting to say that it may not or will not arise; but we are saying in this amendment that if it does arise it is important enough that parliament should be seized of it. What the minister is saying in effect is that it is not desirable should that situation arise to go to parliament with it. It is not desirable, he says, that it should be brought to parliament.

Hon. Mr. ABBOTT: I do not want to interrupt you, Mr. Fleming, but I did not say that. I said I thought it was imposing a limitation on the note issue and liabilities of the Bank of Canada—an arbitrary limitation—which in my opinion was not desirable. I can think of circumstances in which that could do great harm and in which it might not be possible to get authority from parliament in time in order to cure an undesirable situation. I did not say it

was undesirable to consult parliament but we are dealing with a particularly technical question. I do not know where Mr. Macdonnell picked up his 10 per cent figure but I know he has had some considerable doubts both about the principle and the extent of his amendments.

Mr. MACDONNELL: I do not say there is anything magical about it. If the minister suggested 11%, I would go along with him.

Mr. FLEMING: I am dealing with Mr. Abbott's answer—

Mr. HUNTER: You misinterpreted him and he corrected you.

Mr. FLEMING: Parliament is available to be consulted anytime on short notice, as was done in September 1950, as we all remember, and surely it is not going to be said that a situation calling for an increase beyond this 10 per cent is going to arise so quickly or so unexpectedly that parliament could not be summoned within a few days to deal with it—and to deal effectively with it. Surely this is a situation of such importance that parliament should be asked to deal with it, and it should not be dealt with apart from reference to parliament.

Concerning the 10 per cent figure, you have to strike a figure somewhere. Surely 10 per cent provides adequate leeway in a situation of this kind for fluctuations that may occur from time to time under circumstances that are not in any degree abnormal, but surely if there is going to be an increase beyond 10 per cent then it is time parliament was called in.

Hon. Mr. ABBOTT: I do not want to elaborate on this, Mr. Fleming, but you can appreciate there could be such things as hoarding of currency. Now, if currency were hoarded in substantial quantities it might prove very embarrassing if there were not readily available and promptly available sufficient currency to carry on the day to day transactions of the bank. I am not a technician nor am I qualified to elaborate on that but I do say I think it is undesirable that there should be an arbitrary limitation of this kind in the Bank of Canada Act and that is the reason why I am opposing it.

The CHAIRMAN: You have a word, Mr. Cameron?

Mr. FLEMING: Please let me say this briefly. The minister says it is undesirable to have this limitation. Now, parliament can remove the limitation in any set of circumstances which arise; therefore the argument comes down to this, that it is not desirable if that situation arises that it should be necessary to go to parliament to deal with it. Concerning the other example the minister gave us of the hoarding of currency, that does not happen on a huge scale overnight.

Hon. Mr. ABBOTT: Oh? It has happened in some countries!

Mr. FLEMING: Surely we will not be invited to believe, Mr. Chairman, this is something that is going to happen on such a large scale and so suddenly that the country will be handicapped for lack of currency?

Hon. Mr. ABBOTT: I would hope you are right, Mr. Fleming, but it is not impossible.

Mr. FLEMING: I am perfectly satisfied that if that situation should arise that parliament is quite capable of dealing with it sufficiently quickly and effectively—and I think that is democracy.

Hon. Mr. ABBOTT: I think you are confusing our system a bit with the American system, Mr. Fleming. We have a system of responsible government in British countries. There is an executive which is responsible to parliament and it only remains the executive as long as it retains the confidence of parliament.

Mr. FLEMING: I am not confusing this with any American system, Mr. Chairman. I am trying to bring the minister to face the fact that what he

is saying is that the government is responsible—theoretically at any rate—and is superior to parliament, and has the power and the right to deal with a situation as important as this if and when it may arise without reference to Parliament.

The CHAIRMAN: Could you add something, Mr. Cameron?

Mr. CAMERON (*Nanaimo*): I wonder if Mr. Abbitt could give us an answer to this question? What does he think would have been the effect on the public confidence in Canadian currency if during the years from 1939 to 1945 it had been necessary for the government to go to parliament each time it was necessary to increase the currency by 10 per cent?

Hon. Mr. ABBOTT: I would hesitate to express any opinion on that. As I told Mr. Macdonnell when I was dealing with his question when he first raised it, Mr. Cameron, the desirability or otherwise of a provision of this kind in the Bank of Canada Act is a matter of opinion. In my opinion it is undesirable. In Mr. Macdonnell's opinion it is desirable. In all questions of opinion, I suppose, anybody can be assertive and perhaps I have been a little too assertive here, I do not know, but be that as it may I am opposed to Mr. Macdonnell's amendment.

The CHAIRMAN: Let us see what is desirable or undesirable in the opinion of the committee?

Mr. MACDONNELL: I want to ask a question on Mr. Cameron's point under the War Measures Act was not power given?

Hon. Mr. ABBOTT: I doubt it, Mr. Macdonnell, but I have not given the matter any consideration from a legal standpoint.

The CHAIRMAN: You have Mr. Macdonnell's amendment. All those in favour?

Contrary, if any?

Lost.

Shall the title carry?

Agreed.

Shall the bill as amended carry?

Agreed.

Shall I report the bill as amended?

Agreed.

Let us deal with the Bank Act now. The first clause which stood was clause 21. If you turn to proceedings No. 27 you will find an amendment by Mr. Macnaughton which reads as follows:

(4) A person is not eligible to be elected or appointed a director after the first day of July, 1959, if he has reached the age of seventy-five years.

Now I will ask Mr. Abbott if he has any comments on that amendment.

Hon. Mr. ABBOTT: I think my position on that must be that as far as our own bank is concerned—when I say our own bank I mean the publicly owned bank, the central bank, the Bank of Canada—the government recommended and parliament has agreed it was desirable that there should be an age limit on the men who serve as directors of the Bank of Canada and that age limit is seventy-five. As far as the chartered banks are concerned, we feel that is a matter of internal management which is primarily one for the shareholders of the banks themselves to decide. However, I can add this, that if the committee feel that it is desirable that these great institutions should be sub-

ject to a similar rule I know I would find it difficult to oppose it. It is not an amendment which I felt the government would initiate but if the committee feels that a limitation of this kind is in the public interest, I certainly do not intend to oppose it. I notice from the terms of the amendment that it does not come into effect for 4 or 5 years, so in the ordinary course any distinguished bank directors who are over 75 now may not be seriously affected.

The CHAIRMAN: It would give the young men a chance, would it not?

Hon. Mr. ABBOTT: I do not know.

The CHAIRMAN: You have the amendment. All those in favour?

Carried.

Gentlemen, the next ones we have are 36, 37, 38 and 39. There are some amendments here.

36. Any of the original unsubscribed capital stock or of the increased capital stock shall be offered to the persons who are shareholders when the offer is made, pro rata, at such price not less than par, at such time and on such terms as the directors determine, except that

- (a) no fraction of a share shall be so offered,
- (b) the price of the stock shall be paid in money,
- (c) payment shall not be required in greater amounts or at shorter intervals than ten per cent of the price every thirty days.
- (d) the directors shall not fix a price that would make the premium, if any, payable on the stock so offered, greater in relation to the par value of the stock than the rest account then is in relation to the paid-up capital stock, and
- (e) no share shall be offered to a shareholder whose recorded address is in a country outside Canada, where, to the knowledge of the directors, the offer ought not to be made unless the appropriate authority in that country is furnished with information other than that contained in the statement submitted to the shareholders at the last annual general meeting and in any return under section 103 made by the bank after that meeting and more than sixty days before the date of the offer.

Mr. ELDERKIN: In the original clause 36 as proposed, the only part that was new was paragraph (e) which provided the exceptions to the general offer of shares. There are some foreign countries which require any corporation offering shares for sale in the country to file very extensive information. The amendments that are being proposed to section 2 clause 36 give an additional method of distributing stock by means of rights, and they were only finished today, so if I may read them, clause 36 on page 15 should be amended as follows.

The CHAIRMAN: Will someone move to amend?

Moved by Mr. Philpott, seconded by Mr. Follwell.

Mr. ELDERKIN:

Delete paragraph (a).

Reletter paragraphs (b) and (c) as (a) and (b).

Reletter paragraph (d) as (c) and delete the word "and" at the end of the paragraph.

Reletter paragraph (e) as (d) and amend by replacing the word "shall" in the first line of the paragraph with "need" and by adding to the paragraph the following after the word "offer":

but the directors may offer shares to such a shareholder or may in lieu of such an offer provide for him such rights in respect of shares as the directors determine, and such offer of shares or provision of rights may, subject to paragraphs (a), (b), (c) and (e), be on terms different except as to price from those of the offer to or provision for shareholders whose recorded address is elsewhere than in such country, and

Insert the following as paragraph (e):

- (e) no fraction of a share shall be offered and no rights in respect of a fraction of a share shall be provided.

Now, if I may explain a bit further the only thing here that is being added is that the bank may, if it so wishes, offer rights to shareholders in foreign countries or where it is provided that they may not offer shares, rights may be offered which are saleable but not exercisable. They may offer them under any terms and conditions as long as the price is the same.

Mr. FRASER (*Peterborough*): Why have you "no fraction of a share"?

Mr. ELDERKIN: This comes from the old Act. No fraction of a share can be issued.

The CHAIRMAN: Clause 36 subject to that amendment, carries.

Clause 37.

37. The offer shall be mailed to the shareholder at his recorded address and the directors shall, in the offer, fix a date, not earlier than the ninetieth day after the day on which the offer is mailed, by which the offer is to be accepted.

Mr. ELDERKIN: There is a consequential amendment by inserting at the end of the clause after the word "accepted" the words "by the shareholder, or, unless the directors have prohibited the transfer of the rights under the offer, by any transferee thereof." That is consequential on the issue of the rights.

The CHAIRMAN: Clause 37.

Carried.

Clause 38.

38. (1) Shares offered under section 36 that are not subscribed for and shares that are not offered by reason of paragraphs (a) and (e) of section 36 may be disposed of in such manner and on such terms as the directors determine, except that no share shall be sold at less than par.

(2) The net proceeds of the disposal of shares under subsection (1) in excess of the price per share fixed by the directors under section 36 shall be rateably distributed,

- (a) in the case of shares offered but not subscribed for, amongst the shareholders to whom they were offered,
- (b) In the case of shares not offered by reason of paragraph (a) of section 36, amongst the shareholders to whom fractions of shares could not be offered by reason of that paragraph, and
- (c) in the case of shares not offered by reason of paragraph (e) of section 36, amongst the shareholders to whom shares were not offered by reason of that paragraph.

Mr. ELDERKIN: This is a very long amendment because it had to be completely reworded:

The Clause 38 of Bill 338 be deleted and replaced by the following:

38. (1) Where, under section 36,

- (a) shares are offered but not subscribed for or rights in respect of shares are provided but not exercised, or
- (b) shares or fractions of shares are not offered and rights in respect thereof are not provided,

such shares may be disposed of in such manner and on such terms as the directors determine, except that no share shall be sold at less than par.

(2) If the average net proceeds per share of the disposal of shares under subsection (1) exceeds the price per share fixed by the directors under section 36, there shall be paid,

- (a) to each shareholder to whom shares were offered but not subscribed for or for whom rights in respect of shares were provided but not exercised, the amount of such excess multiplied by the number of such shares,
- (b) to each shareholder to whom shares were not offered by reason of paragraph (d) of section 36 and for whom rights in respect of shares were not provided in lieu thereof, the amount of such excess multiplied by the number of such shares, and
- (c) to each shareholder to whom a fraction of a share was not offered and for whom rights in respect of a fraction of a share were not provided by reason of paragraph (e) of section 36, the amount of such excess multiplied by such fraction.

May I state that there is a new principle involved in this section which was not in the old Act, namely, that any surplus over the allotment price realized from the sale of the unsubscribed shares must be rateably distributed to those who could not, or did not, receive an opportunity to subscribe. While it was never required by statute in the past, this was a practice of the banks and has been since the turn of the century at least. It is now enacted as a requirement.

The CHAIRMAN: Clause 38.

Carried.

Clause 39.

39. For the purpose of disposing of shares offered for subscription under section 38 the directors shall cause stock books to be opened at the head office of the bank and elsewhere in their discretion, and each subscriber shall, at the time of subscription, give his post office address and description, and these particulars shall appear in the stock books in connection with the name of the subscriber and the number of shares subscribed for.

Mr. ELDERKIN: This has a substantial amendment, and the motion is: That Clause 39 of Bill 338 be deleted and replaced by the following:

39. For the purpose of disposing of shares under section 36 or 38, the directors shall cause stock books to be opened at the head office of the bank and elsewhere in their discretion and each person acquiring shares who, prior to the time of acquisition, is not a shareholder shall, at that time, give his post office address and description and these particulars shall appear in the stock books in connection with the name of the person and the number of shares acquired.

The CHAIRMAN: Clause 39.

Carried.

Clause 40.

Carried.

Now we are to clause 75. There is an amendment to clause 75.

75. (1) The bank may

- (a) open branches;
- (b) acquire, deal in, discount and lend money and make advances upon the security of, and take as security for any loan or advance made by it, bills of exchange, promissory notes and other negotiable instruments, gold and silver coin and bullion and securities;
- (c) lend money and make advances upon the security of, and take as security for any loan or advance made by it, lien or other notes, conditional sale contracts or any instruments or agreements made or entered into respecting the sale of goods, wares and merchandise, and money payable thereunder;
- (d) lend money and make advances without security; and
- (e) engage in and carry on such business generally as appertains to the business of banking.

(2) Except as authorized by or under this Act, the *National Housing Act, 1954*, the *Farm Improvement Loans Act* or the *Veterans' Business and Professional Loans Act*, the bank shall not, directly or indirectly,

- (a) issue or reissue notes of the bank payable to bearer on demand and intended for circulation;
- (b) deal in goods, wares and merchandise or engage in any trade or business;
- (c) acquire, deal in or lend money or make advances upon the security of shares of the capital stock of the bank or any other bank;
- (d) lend money or make advances on the security of real or immovable property, or of ships or vessels, or of goods, wares and merchandise;
- (e) lend money or make advances to or on the guarantee of the general manager or any officer or employee subordinate to the general manager.
 - (i) without the consent of the directors, if the principal amount outstanding of loans and advances made to and secured by him, together with the proposed loan or advance, exceeds twenty-five hundred dollars, or
 - (ii) if the principal amount outstanding of loans and advances made to and secured by him, together with the proposed loan or advance, exceeds twenty thousand dollars;
- (f) lend money or make advances in a principal amount exceeding five per cent of its paid-up capital to a director of the bank or to any firm or corporation of which a director or the general manager of the bank is a member or shareholder without the consent of two-thirds of the directors present at a regular meeting of the board or a meeting of the board specially called for the purpose; and
- (g) except with the consent of the Treasury Board, contribute to any guarantee or pension fund if any part of the fund has, at any time after the coming into force of this Act, been invested in shares of the capital stock of a bank.

(3) A director of the bank shall not be present or vote at a meeting of the board during the time at the meeting when a loan or advance to himself or a firm or corporation of which he is a member or director is under consideration, unless the loan or advance is to a corporation controlled by the bank, all the issued capital stock of which, except the qualifying shares of directors, is owned by the bank.

(4) No officer or employee of the bank shall act as agent for any insurance company or for any person in the placing of insurance, nor shall the bank exercise pressure upon a borrower to place insurance for the security of the bank in any particular insurance agency, but nothing in this subsection precludes the bank from requiring such insurance to be placed with an insurance company approved by it.

(5) Nothing in paragraph (d) of subsection (2) shall be construed to prohibit the acquisition by the bank from a corporation of securities issued or guaranteed by the corporation that are secured on any property, whether in favour of a trustee or otherwise, or the making of a loan or advance by the bank to the corporation against the issue of such securities.

You will notice that subclause 2 deals with the National Housing Act, I thought that it would be of interest to the committee to know that for the first time in many years there has been no public complaint that there is a lack of mortgage funds. For the first seven weeks of operation of this Act there were 10,083 requests for loans on a unit basis. A great deal of activity took place in the last two weeks. In the first quarter of this year the starts in building were about the same as last year. The completions this year are about 11 per cent above last year. They are almost 20,300. From what I can gather from the Central Mortgage and Housing Corporation we are going to have a record-breaking year for house building. They also tell me that the banks are doing an excellent job serving the needs of the people for mortgage funds. That part of the legislation seems to have worked out very well.

Clause 75 has an amendment. Page 35, subclause (6) to clause 75 will read as follows. It is a new clause:

75. (6) Paragraphs (b) and (d) of subsection (2) do not apply to the lending of money or the making of advances upon the security (whether by way of mortgage, transfer or otherwise) of household property, that is to say, motor vehicles and any personal or movable property for use in or about dwellings and lands and buildings appurtenant thereto, to any individual other than a manufacturer thereof or dealer therein, or to the purchase, subject to a right of redemption, of such household property from any such individual.

Moved by Mr. Philpott, seconded by Mr. Fraser (*St. John*).

The CHAIRMAN: The effect of the amendment is to give the banks the right to take chattel mortgages.

Hon. Mr. ABBOTT: I understood that the committee felt that it might be desirable that the banks should be able to take some additional security for these so-called small loans, the security to be of appropriate form in the province in which it might be taken of course, but in essence it would be security upon such things as automobiles, electrical appliances, household furniture, and so on. I discussed that with my colleagues and we came to the conclusion that the government would have no objection to such a provision being inserted in the Bank Act. We did not feel that we should create a new type of security. That is not what is done in the present amendment. But, subclause 2 of clause 75 as it now stands contains certain prohibitions. Sub-

clause 2(b) provides that the banks shall not, directly or indirectly, deal in goods, wares and merchandise or engage in any trade or business; and (d) prohibits the bank from lending money or making advances on the security of real or immovable property, or of ships or vessels, or of goods, wares and merchandise. Now, the effect of this amendment if the committee approves it and if the House approves it, will be to remove that prohibition and it will then be possible for the banks to take security on this type of asset in accordance with the laws of the province in which the banks may be.

Mr. HUNTER: I would like to say something on that. I feel that this will not broaden the scope of loans very greatly. Mr. Atkinson did not seem to feel it would broaden it substantially, and if it is not going to achieve the purpose of broadening the field in making loans available to people who might not otherwise get them, it seems to me all we are offering the banks is an additional form of security. I, therefore, do not believe this is going to be helpful to the public. I could be wrong, but that is my feeling.

Hon. Mr. ABBOTT: Perhaps I should add that this is not an amendment which was suggested by the government, as I tried to make clear, but if it is one that the committee feels is desirable, the government is certainly not prepared to oppose it. I am not prepared, as Minister of Finance, to oppose it.

Mr. FOLLWELL: This is an amendment presented purely and simply by the Bank of Commerce.

The CHAIRMAN: Yes.

Mr. TUCKER: I understood also that Mr. Atkinson said that there would be cases where if they could take this security they would make a small loan where otherwise they might very well have to decline it.

Mr. PHILPOTT: I am strongly in favour of this amendment because it seems to me that it does a useful job for the people of Canada.

Mr. MICHENER: Is the amendment limited to the words: "goods, wares and merchandise".

Hon. Mr. ABBOTT: The opinion of the law officers was that the exception which is contained in the new subclause 6 should be made applicable to both subclause (b) of subclause 2 and subclause (d) of subclause 2. It is for that reason it is drafted in this form. You will see that it is intended to be limited to individuals. This type of security should not be available to wholesalers manufacturers, or automobile dealers.

Mr. MACDONNELL: I find it difficult to understand the nature of the transaction which is in mind when it says "or to the purchase".

Hon. Mr. ABBOTT: You are not a member of the Quebec Bar.

The CHAIRMAN: Remember that bill of sale they were talking about instead of the chattel mortgage?

Hon. Mr. ABBOTT: I was not being facetious. I think that language is designed to cover purchases with a right of redemption under the Civil Code of the province of Quebec.

Mr. MACDONNELL: May we have an opinion from the minister. I wish to know whether the minister is definitely in favour of this. Frankly, I do not think I gave it enough thought without getting some sort of a lead.

Hon. Mr. ABBOTT: I am quite happy to see this amendment passed. It is purely enabling and it does not compel anyone to do anything.

Mr. MACDONNELL: Is it fair to ask who suggested it.

Hon. Mr. ABBOTT: My information is it was suggested here in the committee as a result of evidence taken here—I did not attend all the meetings—but I think following the evidence given by Mr. McKinnon, the general man-

ager of the Bank of Commerce and it was suggested to me it might be a useful provision to put in the Act. I gave it some consideration. I indicated earlier, possibly before you came in, that I was not prepared to recommend a new form of security but that I was prepared to agree to the removal of the prohibition on the taking of this type of security in the limited cases under this amendment.

The CHAIRMAN: All those in favour?

Contrary?

Carried.

Clause 78. There is no amendment to that. It was held for some reason—for Mr. Elderkin to look at it. There is no amendment to it. Carried.

Clause 82 is the one concerning oil and Mr. Tucker wanted to ask some questions about it.

82. (1) The bank may lend money and make advances upon the security of any or all of the following:

- (a) hydrocarbons, in, upon or under the ground, in place or in storage;
 - (b) the rights, licences or permits of any person to obtain and remove any of such hydrocarbons and to enter upon, occupy and use lands from or on which any of such hydrocarbons are or may be produced;
 - (c) the estate or interest of any person in or to any such hydrocarbons, rights, licenses, permits and lands whether such estate or interest is entire or partial; and
 - (d) the casing and equipment used or to be used in producing or seeking to produce and storing any such hydrocarbons;
- or of any rights or interests in or to any of the foregoing.

(2) Security under this section may be given by signature and delivery to the bank by or on behalf of the person giving the security of an instrument in the form set out in Schedule L or in a form to the like effect, and shall affect the property described in the instrument giving the security

- (a) of which the person giving the security is the owner at the time of delivery of such instrument, or
 - (b) of which such person becomes the owner at any time thereafter before the release of the security by the bank, whether or not such property is in existence at the time of such delivery,
- all of which property is for the purposes of this Act property covered by the security.

(3) Any security given under this section vests in the bank, in addition to and without limitation of any other rights or powers vested in or conferred on it, full power, right and authority, through its officers or agents, in the event of

- (a) non-payment of any loan or advance as security for the payment of which the bank has taken the security, or
- (b) failure to care for, maintain, protect or preserve the property covered by the security.

to take possession of, seize, care for, maintain, use, operate and sell the property covered by the security or part thereof as it sees fit, returning to the person entitled thereto any surplus proceeds of any such operation or sale remaining after payment of all such loans and advances, with the interest and expenses; a sale of any of the property by the bank vests in the purchaser all the right and title in and to such property that the person giving the security had when the security was given and

that he acquired thereafter; unless the person by whom the security was given has agreed otherwise, any such sale shall be made by public auction after

- (c) notice of the time and place of the sale has been sent by registered mail to the recorded address of the person by whom the security was given, at least ten days prior to the sale, and
- (d) publication of an advertisement of the sale, at least two days prior to the sale, in at least two newspapers published in or nearest to the place where the sale is to be made; and if the sale is in the Province of Quebec at least one of such newspapers shall be a newspaper published in the English language and one other newspaper shall be a newspaper published in the French language.

(4) Subject to subsection (5), all the rights and powers of the bank in respect of the property covered by security given under this section, have priority over all rights subsequently acquired in, on or in respect of such property and also over the claim of any mechanics' lien holder or of any unpaid vendor of casing or equipment, but such priority does not extend over the claim of any unpaid vendor who had a lien upon the casing or equipment at the time of the acquisition by the bank of such security, unless the same was acquired without knowledge on the part of the bank of such lien.

(5) The rights and powers of the bank do not have priority over an interest or right acquired in, on or in respect of the property covered by security given under this section, unless an original of the instrument giving the security, or a copy thereof, certified by an officer of the bank to be a true copy, or a caution, caveat or memorial in respect of the rights of the bank has been registered or filed in the proper registry or land titles office or office in which are recorded the rights, licences or permits referred to in this section, before the registration of such interest or right or the registration or filing of the deed or other instrument evidencing it, or of a caution, caveat or memorial in respect thereof, and every registrar or officer in charge of such proper registry or land titles or other office to whom an original of an instrument giving such security, or a copy thereof, certified by an officer of the bank to be a true copy, or a caution, caveat or memorial in respect of the rights of the bank is tendered, shall register or file the same according to the ordinary procedure for registering or filing within such office documents that evidence liens or charges against, or cautions, caveats or memorials in respect of claims to interests in or rights in respect of any such property and subject to payment of the like fees; but this subsection does not apply if the provincial law does not permit registration or filing of such original or certified copy of the instrument giving the security or a caution, caveat or memorial in respect of the rights of the bank.

(6) When making a loan or advance on the security provided for by this section, the bank may take, on any property covered by such security, any further security it sees fit.

(7) Notwithstanding anything in this Act, where the bank holds any security covering hydrocarbons, it may take in lieu thereof, to the extent of the quantity covered by the security, any security covering or entitling it to the delivery of the same hydrocarbons or hydrocarbons of the same or a similar grade or kind.

Mr. TUCKER: What I wanted to find out is this: was it the intention to give overriding rights? I take it under the right of the dominion to legislate in regards to banks and banking they can override the provisions of any provincial law under their heading of property and civil rights. These are common

law rights, the equity of redemption and certain similar rights. Under these laws rights in real property cannot be taken over by the mortgagee without action in the courts. I just wondered what was the intention of this clause in this respect in regard to borrowing on the security of mineral rights?

Hon. Mr. ABBOTT: My understanding is this, Mr. Chairman, that the intention of this section was to extend to loans made on oil in the ground similar security to that afforded by section 88 in the case of goods, wares and merchandise and the security here will be analogous to the security taken under section 88. I am also informed that this was discussed with the province of Ontario and the prairie provinces before it was suggested and that their approval was given. I only have that on hearsay; I am told that is the case. I personally think it is a desirable thing to do. This does create a special form of security and differs from the amendment we have just been considering where the security must be taken in accordance with the provincial law. This is a security closely analogous to the special type of security given under section 88.

Mr. TUCKER: Of course the title to hydrocarbons, in Saskatchewan at least, is a title to land. Provision is made here for selling and giving title and so on, but there still is the question as to whether the banks could give a transfer to be registered under our torrens land title system?

Hon. Mr. ABBOTT: That is my understanding.

The CHAIRMAN: Clause 82 carries.

Clause 85 stood.

85. (1) The bank may lend money and make advances in aid of the building of any ship or vessel or of the installation of engines or equipment therein or of the repair or alteration of any ship or vessel, or its engines or equipment, and in making the loan or advance and thereafter has the same right of acquiring and holding security upon the ship or vessel before and during such building, installation, repair or alteration, and after completion thereof, either by way of mortgage, hypothec, hypothecation, privilege or lien thereon, or purchase or transfer thereof, as any person has in the province wherein the ship or vessel is being built, equipped, repaired or altered.

(2) The bank may, for the purpose of obtaining and enforcing any security under subsection (1), avail itself of all such rights and means, and is subject to all such obligations, limitations and conditions as are, by law of such province, conferred or imposed upon individuals making the advances.

The CHAIRMAN: Mr. Tucker asked about the wording of that section.

Hon. Mr. ABBOTT: Perhaps Mr. Elderkin could answer that.

Mr. ELDERKIN: Yes, Mr. Tucker, you brought up a point in clause 85 regarding the phrase "by the law of such province conferred or imposed upon individuals making the advances." This phrase is not unique in this section of the Bank Act. It appears also in clause 78 and clause 80 and has been in there since Confederation. It is a little difficult now to tell why it was done at that time but I think it was probably stated in that manner to give the banks certain rights which might otherwise be impaired by the law of Mortmain or laws of that nature. It appears desirable to retain it on that basis.

The CHAIRMAN: Clause 85 carried.

Clause 86.

Carried.

Clause 88—there was an amendment to that by Mr. Anderson which I will read to you:

That Clause 88, subclause 5, be amended by:

1. deleting the coma after the word "person" in line 24 thereof and inserting the following: *and concurrently accounts owing to primary producers for the selling price of fruits or vegetables in respect to deliveries thereof within a period of three months next preceding the making of such order or assignment,*

2. inserting after the word "period" in line 29 the following: *and Such accounts owing to primary producers for the selling price of fruits or vegetables with respect to deliveries made during the period aforesaid;*

3. inserting after the word "employees" in line 30 the following: *and of such primary producers.*

Mr. TUCKER: What page?

The CHAIRMAN: Page 43.

Mr. ELDERKIN: I believe it is page 48.

The CHAIRMAN: Let us take one moment and read the amendment in full.

"(5) Notwithstanding anything in subsection (2) and notwithstanding that a notice of intention has been registered pursuant to this section by a person giving security upon property under this section, where under the *Bankruptcy Act* a receiving order is made against, or an assignment is made by such person, wages, salaries or other remuneration owing in respect of the period of three months next preceding the making of such order or assignment, to employees of such person employed in connection with the business or farm in respect of which the property covered by the security was held or acquired by such person and concurrently accounts owing to primary producers for the selling price of fruits or vegetables in respect to deliveries thereof within a period of three months next preceding the making of such order or assignment shall be a charge upon the property covered by the security in priority to the rights of the bank therein and if the bank takes possession or in any way disposes of such property, such wages, salaries or other remuneration owing for the said period and such accounts owing to primary producers for the selling price of fruits or vegetables with respect to deliveries made during the period aforesaid shall be paid by the bank and the bank is subrogated in and to all the rights of such employees and of such primary producers to the extent of the amounts so paid."

The Honourable the Minister has some views on the amendments. You have already had an opportunity of questioning Mr. Atkinson on the amendment, you will remember that Mr. Robinson appeared before the committee and you questioned him on it.

Hon. Mr. ABBOTT: Mr. Chairman, I would feel compelled to oppose this amendment but I want to tell my friend, Mr. Anderson, why I feel I should do so. The main reason is that I do not believe an amendment of this kind would be in the interests of the growers themselves. What has been asked here is that the vendors' lien or vendors' privilege of the producers of fruit and vegetables to be processed and canned and sold should be preserved and protected as against the position of the bank under clause 88. If we were to agree to this amendment I think it would be almost inevitable that we would have to protect the lien of the vendor and the supplier of materials in every operation, whether it be the manufacture of clothing or anything else, and if we were to do that I think we would find that no bank would be prepared to make any advance under section 88.

Clause 88, as it has stood for a great many years, is, I think, unique in banking legislation and has fulfilled a very useful purpose in the Canadian economy. It has enabled producers of goods to sell their goods to a processor who can process them, manufacture them, market them, sell them, and pay off the bank loan and without accommodation of that kind, it is quite probably, I think, that a good many industries in Canada would not have been able to develop as well as they have. It may be that one of these days clause 88 will have outlived its usefulness. I know from previous experience going back over many years that banks do not particularly care to lend under clause 88. It is rather an expensive way of lending. The property is usually in the possession of the debtor. It is sometimes difficult to ascertain its real value and so on. Since the amendments to the Act were made in 1944 providing for greater publicity, registration of notice of intention and so on, it is open to any supplier to ascertain whether the person to whom he is offering his goods is borrowing under clause 88 or not and I think he should do so. In the case of the particular group who are interested here I am told they have a very efficient growers' organization and I think it would be well for them to inform themselves as to what canners are borrowing from banks under clause 88 security.

One of the difficulties of this particular industry, I think from what I have been told, is that the canners have been in the habit of financing their operations in part on the growers. Well, there is no particular reason why they should do that. They do not do that in other industries and it surely would be quite possible for them to pay cash for their tomatoes or fruits or vegetables or whatever they are and perhaps get enough bank accommodation to do it. But the end result in placing the vendors' liens ahead of the bank security is that the banks would not loan the money. There is little purpose in putting sections into clause 88 which would destroy the effectiveness and value of that section and for this reason I would have to oppose it. I might point out again that we certainly could not restrict it just to the one group of producers. It would have to be extended to a much wider field and that would put the vendors' position ahead of the banks in a great many cases.

The CHAIRMAN: Gentlemen, is there any further discussion? All those in favour of the amendment? Contrary, if any?

Lost.

Mr. TUCKER: I would like to ask a question about that. I was trying to figure out, while you were putting it up for vote,—clause 88 subclause 2 (c) says:

if such property on which security is given under paragraph (a), (b), (e), (h) or (i) of subsection (1), the same rights and powers as if the bank had acquired a warehouse receipt or bill of lading in which such property was described, or

The CHAIRMAN: What clause are you referring to?

Mr. TUCKER: Clause 88, subclause 2 (c) on page 44. That does not refer to (d) which is the one involved. I understand a bank can make loans to a person engaged in manufacturing or processing upon the security of goods, wares, merchandise manufactured by him. That clause does not apply to farmers who give their produce to a canner for processing. Now what I was wondering about is as to whether if in the contract made by the processor with the growers it was provided that, until payment, title should not pass and providing also they should retain an undivided interest in the goods processed until paid, whether that would prevail because it is not contradicted by subclause (d)?

Hon. Mr. ARROTT: You have raised a very intricate question, Mr. Tucker. As you know, the general position is that the bank holding security under

section 88 holds that security with all the rights it would have had it held it under a warehouse receipt. That is the general position. As the bank can realize on the security, it is entitled to do it even although the person in whose possession it is and who may have given him the conveyance under section 88 has not in fact paid for the goods. That has always been the position.

Mr. TUCKER: (c) gives that right?

Hon. Mr. ABBOTT: I think (d) relates to grain, does it not?

Mr. TUCKER: Yes, it definitely provides there that the bank's rights shall prevail even if the person giving the security is not the owner. I was wondering if when they saw fit to divide that in the Act with regard to (d)—I have read the submission of the growers and they sometimes lose a whole year's work and I was wondering if they could not reserve title in such a way that they would be sure of getting paid. There is an alternative of course. In some of the provinces, Mr. Chairman, all dealers with goods like this must be licensed and bonded and that, of course, would fully protect the grower and would be a matter for provincial legislation.

Hon. Mr. ABBOTT: I am informed in the case in which Mr. Huffman and Mr. Anderson are interested the growers have an excellent growers' association and the gratuitous advice I am putting forward here is that the organization take steps to ascertain—they can easily find out—what canners are borrowing from banks under section 88 and advise their members to govern themselves accordingly.

The CHAIRMAN: That is what I told them this morning.

Mr. ANDERSON: How can we do that? Is that information available?

Hon. Mr. ABBOTT: Mr. Robinson is fully aware where he or his association can find out. In Toronto they could find out in about five minutes which canners are borrowing under section 88, and if I were a supplier to those canners I would sell for cash.

Mr. HUFFMAN: In a case where the head office is in the United States, would that apply as well?

Hon. Mr. ABBOTT: Yes.

Mr. TUCKER: A person could take deliveries from growers today for a considerable part of the year and then file the notice and the farmers would not know when they delivered their stuff that a loan might be taken because this security attaches when they give the security.

Hon. Mr. ABBOTT: That is true, but that applies to a great many trades, it is not only this one. You could take a position with respect to section 88 and say perhaps that it should not be in the Bank Act. I do not personally take that position. I think it is fulfilling a very useful purpose, but if it is in the Act I think we should give the banks the rights set out here or they will not lend under it.

The CHAIRMAN: We have now passed all the clauses. Shall the title carry?

Carried.

Shall the bill carry?

Carried.

Shall I report the bill as amended?

Carried.

Shall I order a reprinting of Bills 297 and 338?

Agreed.

The CHAIRMAN: There is one more bill, number 419, an Act respecting savings banks in the province of Quebec. While the clerk is passing out

copies, let me read to you what Mr. Abbott said when introducing this bill in the House so that you may be better acquainted with the bill:

Mr. ABBOTT: Mr. Chairman, the bill to be based on this resolution provides for the revision of the Quebec Savings Banks Act under which two savings banks operate, one in Montreal and one in the city of Quebec. The principal features of the bill are: (1) the extension of the bank charters for a further period of ten years to July 1, 1964; (2) a provision, complementary to the proposed legislation in the National Housing Act, to permit these banks to lend money on insured mortgages; (3) an increase in the limit on the amount which the banks may lend on conventional mortgages; and (4) an increase in other investment and lending powers.

I am proposing that, for the first time since 1913, there should be a complete reenactment of this act and a repeal of the former one. In doing so, this bill follows, wherever appropriate, like provisions in Bill No. 338 relating to the chartered banks, which has recently been given consideration by this house and sent to the banking and commerce committee for further study. Many of the administrative changes proposed in that bill have been incorporated in this one as well. I shall be pleased to give a more detailed explanation when the bill is before the house for second reading, and I propose, after it has been given second reading, to move that it be referred to the banking and commerce committee.

Mr. Abbott moved the second reading of Bill No. 419.

He said: This bill provides for the revision and reenactment of the Quebec Savings Banks Act and for the extension of the charters of the two banks which operate under this act for a further ten year period.

These banks, one in Montreal and the other in the city of Quebec, are each over 100 years old, having been founded in 1846 and 1848 respectively. They were later incorporated by special acts and after confederation were granted charters in 1871 which were to continue in force for ten years. Since that time, it has been the custom to enact decennial extensions of the charters concurrent with those of the chartered banks. Their record has been one of steady progress under sound management and today their combined assets amount to more than \$225 million.

The operations of the savings banks are in many ways similar to, and in other ways quite different from, those of the chartered banks. Hon. members will recall that changes were proposed in the method of computing and in the level of cash reserves for chartered banks, but I am not proposing similar changes in this bill. The movement of deposits and loans is far less volatile than in the chartered banks, and the present reserve basis has proved satisfactory for these institutions.

Loans on the security of mortgages have been, for many years, a type of investment in which similar institutions in other countries have invested funds. The act was amended to permit our savings banks to enter this field in 1948 and they have since become quite an important factor. At December 31 last they had outstanding almost \$7 million in loans of this kind. At present these loans are limited to the equivalent of 10 per cent of a bank's deposit liabilities. In this bill, I am proposing that the limit on conventional mortgages be raised to 20 per cent of deposit liabilities and that, as proposed for the chartered banks, insured mortgage loans under the National Housing Act may be made without statutory limits.

There are also several provisions in this bill which alter and, in some cases, increase the investment and lending powers of these banks. I shall not deal with them in detail at this stage as the changes will be apparent to hon. members as they study the bill, and it will of course be considered in the banking and commerce committee.

As I informed the house a few moments ago, this bill constitutes the first complete revision since 1913 of the Quebec Savings Banks Act, and there have been included all the provisions of the proposed Bank Act which are appropriate to the operation of these savings banks. Some of the more important are provisions relating to: (1) the period in which the banks may carry on business; (2) a method of increasing the authorized capital and the manner in which the bank may dispose of the additional stock; (3) investment restrictions with respect to bank pension funds; and (4) destruction of old records.

There are, of course, many consequential changes, but these do not require explanation at this time.

In conclusion, Mr. Speaker, I believe that the amendments proposed in this bill will benefit these two institutions, which have served their respective communities so well for more than a century, and will also benefit those who use their services.

As I have indicated, when the bill is given second reading I shall move that this bill be referred to the banking and commerce committee, where I am sure it will receive the careful study it deserves.

You will appreciate, gentlemen, there is nothing new in this bill and we should be able to examine it in a very short time. The minister has to leave for the cabinet at 5 o'clock. I will go through it quickly. If you wish a clause to stand shout loudly "stand" but have a good reason for it, please.

Mr. FRASER (*Peterborough*): Before you start, what about Ontario?

Hon. Mr. ABBOTT: You probably know the history of these two banks, Mr. Fraser. They are pre-Confederation banks and were chartered before Confederation. When the British North America Act was enacted and came into effect in 1867, jurisdiction with respect to banking having been transferred to the federal government, these banks came under federal jurisdiction. They operate as savings banks with different powers from the ordinary commercial banks and it has been the practice every ten years when the charters of the commercial banks are renewed to renew the charters of these two savings banks.

Mr. FRASER (*Peterborough*): Are they subject to inspection?

Hon. Mr. ABBOTT: Yes, they are subject to inspection and both are in an extremely solvent position.

Mr. MICHENER: What is the main difference between the charters of the savings banks and of the commercial banks?

Hon. Mr. ABBOTT: Mr. Elderkin could elaborate on that. They do not make commercial loans, strictly speaking, and they lend on mortgages and securities.

Mr. ELDERKIN: They are very restricted in their investment portfolio, as well. That is spelled out in the sections we will come to. They do not have nearly as broad investment powers as the chartered banks.

Hon. Mr. ABBOTT: If you look at the investment portfolios you will see there are many government bonds.

The CHAIRMAN: Clause 1, carried.

Clause 2, carried.

Clause 3, carried.

Clause 4, carried.

Clause 5, carried.

Clause 6, carried.

Mr. HELLYER: What is the limit of a loan on a conventional mortgage?

Mr. ELDERKIN: We are coming to that.

Mr. HELLYER: What clause?

Mr. ELDERKIN: It is 20 per cent of their deposit liabilities in total, and 60 per cent of the property value with respect to any one mortgage; the latter is the same as for the trust companies.

The CHAIRMAN: Clause 5, carried.

Clause 6, carried.

Clause 7, carried.

Clause 8, carried.

Clause 9, carried.

Clause 10, carried.

Clause 11, carried.

Clause 12, carried.

Clause 13, carried.

Mr. FRASER (*Peterborough*): Are you going to put the same restrictions on the directors in this bill as you did in Bill 338 in regard to that amendment of Mr. Macnaughton?

The CHAIRMAN: No.

Hon. Mr. ABBOTT: That is a good point, Mr. Fraser!

The CHAIRMAN: Clause 14, carried.

Clause 15, carried.

Clause 16, carried.

Clause 17, carried.

Clause 18, carried.

Clause 19, carried.

Clause 20, carried.

Clause 21, carried.

Clause 22, carried.

Clause 23, carried.

Clause 24, carried.

Clause 25, carried.

Clause 26, carried.

Mr. ELDERKIN: Clauses 26, 27, 28 and 29 are identical with clauses 36, 37, 38 and 39 in the Bank Act and the amendments which the committee approved a short while ago for the Bank Act are required to be made to these sections in the same way. Shall I read them out again?

The CHAIRMAN: I don't think it's necessary, carried as amended.

Clause 30, carried.

Clause 31, carried.

Clause 32, carried.

Clause 33, carried.

Clause 34, carried.

Clause 35, carried.

Clause 36, carried.
Clause 37, carried.
Clause 38, carried.
Clause 39, carried.
Clause 40, carried.
Clause 41, carried.
Clause 42, carried.
Clause 43, carried.
Clause 44, carried.
Clause 45, carried.
Clause 46, carried.

Mr. FRASER (*Peterborough*): Mr. Chairman, I have a question. I have a question I want to ask in regard to deposits. Does the ten-year term apply to these banks also?

Mr. ELDERKIN: Yes, as it applies to the chartered banks. They must pay unclaimed deposits to the Bank of Canada. The clauses are identical with those in the Bank Act.

The CHAIRMAN: Clause 46.
Carried.

Clause 47, carried.
Clause 48, carried.
Clause 49, carried.
Clause 50, carried.
Clause 51, carried.
Clause 52, carried.
Clause 53, carried.

Mr. MICHENER: Do the provisions about dividends correspond with those in the Bank Act?

Mr. ELDERKIN: Yes.

The CHAIRMAN: Clause 54, carried.

Clause 55, carried.

Mr. QUELCH: Why is there not a similar amendment to this one as to the other one?

The CHAIRMAN: In respect to what?

Mr. QUELCH: In regard to cash reserves?

The CHAIRMAN: I do not know.

Mr. QUELCH: Are the deposits held on notice?

Mr. ELDERKIN: Yes, and they fluctuate very little. Having few commercial loans, Mr. Quelch, they do not have similar demands against them, and it is not necessary to put them on the same basis as the chartered banks.

The CHAIRMAN: Clause 55, carried.

Clause 56, carried.

Clause 57, carried.

Clause 58, carried.

Mr. MICHENER: That is the one that gives the powers?

The WITNESS: Yes.

The CHAIRMAN: Clause 58, carried.

Clause 59, carried.
Clause 60, carried.
Clause 61, carried.
Clause 62, carried.
Clause 63, carried.
Clause 64, carried.
Clause 65, carried.
Clause 66, carried.
Clause 67, carried.
Clause 68, carried.
Clause 69, carried.
Clause 70, carried.
Clause 71, carried.
Clause 72, carried.
Clause 73, carried.
Clause 74, carried.
Clause 75, carried.
Clause 76, carried.
Clause 77, carried.
Clause 78, carried.
Clause 79, carried.
Clause 80, carried.
Clause 81, carried.
Clause 82, carried.
Clause 83, carried.
Clause 84, carried.
Clause 85, carried.
Clause 86, carried.
Clause 87, carried.
Clause 88, carried.
Clause 89, carried.
Clause 90, carried.
Clause 91, carried.
Clause 92, carried.
Clause 93, carried.
Clause 94, carried.
Clause 95, carried.
Clause 96, carried.

Mr. MICHENER: How high can you count, Mr. Chairman?

The CHAIRMAN: Clause 96 carried.

Clause 97, carried.
Clause 98, carried.
Clause 99, carried.
Clause 100, carried.
Clause 101, carried.
Clause 102, carried.
Clause 103, carried.

Clause 104, carried.
Clause 105, carried.
Clause 106, carried.
Clause 107, carried.
Clause 108, carried.
Clause 109, carried.
Clause 110, carried.
Clause 111, carried.
Clause 112, carried.
Clause 113, carried.
Clause 114, carried.
Clause 115, carried.
Clause 116, carried.
Clause 117, carried.
Clause 118, carried.
Clause 119, carried.
Clause 120, carried.
Clause 121, carried.
Clause 122—Trouble!

Mr. ELDERKIN: An amendment is proposed to clause 122 by inserting after the words 1952 in line 27, "The Savings Deposits Returns Act, chapter 246 of the revised statutes of Canada, 1952". It will then read: "The Quebec Savings Bank Act, chapter 232 of the Revised Statutes of Canada, 1952, and the Savings Deposits Returns Act, chapter 246 of the Revised Statutes of Canada, 1952, are repealed."

Hon. Mr. ABBOTT: Perhaps I should say a word there. There is another pre-confederation savings bank in existence, the Newfoundland Savings Bank which was incorporated in 1834. It has been contemplated that the arrangements for the re-arrangement of the affairs of that bank would have been completed by the time this bill came before parliament but that was not the case. I therefore do not propose to suggest at this time the repeal of those Acts. Mr. Fraser, I think, is familiar with the circumstances and I daresay he will move those words be removed from the section.

Mr. ELDERKIN: We now repeal all of clause 123 with that amendment.

The CHAIRMAN: Mr. Fraser is happy to move it. Seconded by Mr. Huffman. We are renumbering clause 124 which becomes clause 123. Schedule A.

Mr. ELDERKIN: There is one amendment in Schedule A in item 8 under assets. Add after 1954 "less provision for estimated loss." That is similar to the amendment we had in the schedule under the Bank Act.

The CHAIRMAN: Gentlemen, that completes that Bank Act. Shall the bill carry? Carried.

Shall the bill as amended carry? Carried.

Shall I report the bill as amended? Agreed.

That completes the work of this committee. I want to tell you how thankful I am for your cooperation and assistance. This has been a very hard working and constructive committee.

Hon. Mr. ABBOTT: Mr. Chairman, if I may add a word, I would like to express my personal appreciation for the work the committee has done. I think you have done a first-class job. I have not attended many of the meetings. I did not feel I needed to because I was sure the bill was receiving careful

consideration under the able direction of the chairman. The reports that I got were that the work was proceeding as carefully but as expeditiously as could be expected. I think the amendments that were suggested have all been constructive and although I did have to oppose one or two, and notably Mr. Macdonnell's this afternoon, I know that he and the others put their amendments forward in the genuine belief that they were adding something to the Bank Acts. I was sorry I had to differ with Mr. Macdonnell, but the fact that I opposed the amendment does not mean I am less appreciative of the fact he brought the amendment forward and gave us an opportunity to discuss it and I am warmly appreciative of all the work done here. I think we have a good Bank Act. I think the Bank Act we had before was a good one, and it proved that fact over the years. It has worked and worked well, but I think the new Act is probably even better than the last Act and one of the reasons it is better is that the committee has given a great deal of time and attention to it and has made very helpful amendments.

Mr. MACDONNELL: I would like to personally thank the Chairman, who I think has been extremely considerate and also very effective in getting things done. He has ruled with an iron hand in a velvet glove. I would also like to add a word, If I may, concerning those who have come before the committee: the minister and the representatives of the banks and the others who were here—

Mr. FRASER (*Peterborough*): And the inspector of banks.

Mr. MACDONNELL: Yes, I have in mind the inspector. They have all been very helpful as we have been going through the details of the Act. We are particularly in debt to Mr. Elderkin for his perfect knowledge of all the details of the Bank Act and I think we owe him a great deal.

Hon. MEMBERS: Hear, hear.

The CHAIRMAN: We must not forget Mr. John Gratrix the clerk, who has been most helpful, as well as Mr. Elderkin. Mr. Gratrix reminds me that a book of the proceedings must be printed for the Record. We must print copies for future generations to have as a reference. I require a motion that we should print 750 copies in English and 300 copies in French of the blue coloured paper bound edition of this evidence.

Mr. FOLLWELL: I so move.

The CHAIRMAN: Shall the motion carry? Agreed.

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Canada Banking and Commerce
Standing Committee on 1954

HOUSE OF COMMONS

First Session—Twenty-second Parliament, 1954

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STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: DAVID A. CROLL, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 30

BILL 463

An Act to amend the Public Service Superannuation Act.

THURSDAY, MAY 27, 1954



WITNESS:

Mr. K. W. Taylor, Deputy Minister of Finance.

ORDER OF REFERENCE

WEDNESDAY, May 26, 1954.

Ordered, That the following Bill be referred to the said Committee:
Bill No. 463, An Act to amend the Public Service Superannuation Act.

LEON J. RAYMOND,
Clerk of the House.

Attest.

MINUTES OF PROCEEDINGS

THURSDAY, May 27, 1954.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Anderson, Applewhaite, Arsenault, Balcom, Benidickson, Boucher (*Restigouche-Madawaska*), Breton, Cameron (*Nanaimo*), Cannon, Crestohl, Dumas, Fleming, Follwell, Fraser (*Peterborough*), Henderson, Huffman, Johnston (*Bow River*), Low, Macdonnell, McMillan, Michener, Monteith, Noseworthy, Pallett, Philpott, Pouliot, Robichaud, Stewart (*Winnipeg North*), and Wood.

In attendance: Mr. K. W. Taylor, Deputy Minister of Finance; Mr. K. R. MacGregor, Superintendent of Insurance; Mr. H. D. Clark, Finance Officer of the Department of Finance; Mr. S. Samuels, Solicitor to the Treasury; Mr. Fred Whitehouse, President of the Civil Service Federation of Canada; Mr. James Lowther, President of the Professional Institute of the Public Service of Canada; Mr. J. Mainwaring of the Civil Service Association of Ottawa and Mr. W. Hewitt-White, Secretary of the D.V.A. Employees National Association.

The Committee commenced the consideration of Bill No. 463, An Act to amend the Public Service Superannuation Act.

Mr. Taylor called, made a statement in explanation of the plan contemplated in the bill and was examined thereon.

During the course of his examination Mr. Taylor tabled the following document which was ordered to be printed as an appendix to this day's evidence, and is to be found as *Appendix "A"*:

Supplementary Death Benefits under the Public Service Superannuation Act.

At 12.55 o'clock p.m., the examination of Mr. Taylor being concluded, he was retired subject to recall, and the Committee adjourned to meet again at 11.30 o'clock a.m., Wednesday, June 2.

R. J. GRATRIX,
Clerk of the Committee.

EVIDENCE

MAY 27, 1954.

11.00 a.m.

The CHAIRMAN: Gentlemen, we have before us bill No. 463, an Act to amend the Public Service Superannuation Act.

A full debate took place on this bill in the House yesterday, the details are no doubt fresh in your minds. Mr. Kenneth Taylor, the deputy minister, is prepared to elaborate on it, and to furnish further particulars and information.

The service organizations—the Civil Service Association of Ottawa, the Civil Service Federation of Canada, the Amalgamated Civil Servants of Canada, the Professional Institute of the Public Service of Canada and the D.V.A. Employees National Association are not prepared to make their presentations this morning. In order that they may be given ample opportunity so to do, we will call our next meeting on Wednesday afternoon. In the meantime Mr. Taylor is here to give you whatever information you require to further understand and study the bill.

Mr. MACDONNELL: Does that mean that the full proceedings this morning will be to hear and question Mr. Taylor and then we will adjourn until next Wednesday?

The CHAIRMAN: That is right.

Mr. Kenneth Taylor, Deputy Minister of Finance, called:

The CHAIRMAN: Mr. Taylor is your witness, gentlemen.

Mr. FRASER (*Peterborough*): Is Mr. Taylor to make a statement first?

The WITNESS: I thought I might make a statement. I have not got a written statement, but I shall try to put the general pattern of the bill before you.

The purpose of the bill, as the minister explained in the House, is to round out the superannuation or pension scheme by adding to it a moderate death benefit. The purpose is to cover the costs of last illness and death and those expenses that are consequential upon it.

I might say that government employees, particularly in a city like Ottawa, are drawn from all parts of Canada. When a public employee dies it frequently happens that quite apart from the last illness and funeral expenses, it is desirable or necessary for the family to move back to some other part of Canada. The widow frequently wants to return to her home town and that is an expense consequential upon the death of a public employee. That does not happen in every case but it happens in a high proportion of cases.

So much for the purpose of the bill.

I will now refer to coverage. The bill applies to all those who are contributing to the Public Service Superannuation Act and, in round figures, that is 120,000 people. It also covers all members of the regular armed forces and that figure is, I think, about 110,000. The total coverage is something of the order of 230,000 people.

The amount of the benefit is, in the case of civil employees, the annual salary adjusted upward if necessary to make it an even multiple of \$250. The purpose of that is simplicity of calculation for the monthly payroll deduction.

The maximum, the top limit, is \$5,000. In the case of the armed forces, because of variations in pay and allowances and the difficulty of calculating in many cases, the actual annual salary of a person in the armed forces, the bill provides that the benefit shall be \$3,000 for every member of the armed forces below the rank of chief petty officer in the navy and the equivalent ranks in the army and air force; and, \$5,000 for all others. My understanding is that \$3,000 is a fair average for other ranks—those below chief petty officer rank; for chief petty officers and commissioned ranks \$5,000 is close to the minimum actual rates of pay.

The amount of the benefit will decline by 10 per cent each year after the participant reaches age sixty. Take a person whose salary is \$3,000 a year. He will be insured for \$3,000 up to age sixty. At age sixty-one it becomes \$2,700. At age sixty-two it becomes \$2,400 and so on.

So long as he continues to be employed in the service the amount will never drop below two months' salary, but if the employee retires from the public service sometime between age sixty-five and age seventy, at age seventy all benefits cease. In other words, the 10 per cent decrease per annum has worked to a point where the amount is zero. If a person employed in the public service is a participant in the scheme for five years or more he may elect on withdrawing from the public service to continue to contribute in the plan on payment of the full rates.

Mr. MONTEITH: Does that mean the government's share too?

The WITNESS: Yes. The rate, as explained in the House, is 40 cents per thousand per month. The actual phrase is "10 cents per month per \$250" which, of course, is the same thing. Therefore, the cost to the person who has withdrawn from the public service and elected voluntarily to continue will not be less than 48 cents per thousand per month plus estimated costs of administration: the figures have not been worked out yet. The administration costs should be quite low because the scheme is tied in with the Superannuation Act. Everybody covered by the Superannuation Act is covered by this bill. No new files need to be created. The files already exist and it merely adds this modest extra deduction to the person who is already having a deduction made on account of superannuation.

The government's contribution will take the form of one-sixth of the total benefits paid. For drafting purposes the bill provides that the government does not pay in month by month an amount equal to one-fifth of the employee's contribution. The way the bill is drafted is that when a payment is made to a beneficiary five-sixths of the payment will come out of the fund and one-sixth will come out of the Treasury. That one-sixth is equal to the gratuity presently paid under section 56 of the Civil Service Act for anyone who has been a civil servant for two years or more. On his death the widow immediately receives a cheque for two months' salary.

Mr. MACDONNELL (*Greenwood*): Is this in lieu?

The WITNESS: Yes. So, the government's one-sixth contribution is in effect the old two months' gratuity which the government continues to pay. The beneficiary under the bill is the spouse and, if there is no spouse, it will be paid to the estate. Payment will be in a lump sum.

Mr. FRASER (*Peterborough*): Would that be payable to a common-law wife as well?

The WITNESS: Yes. The interpretation clause of the Superannuation Act, of which this is part II, will apply, and the rules and regulations covering common-law wives, legal separations and so on, will apply to this.

Mr. FRASER (*Peterborough*): Just the same?

The WITNESS: The same as under the Superannuation Act. I should perhaps explain that where the higher paid civil servant dies, say at \$10,000 a year, under the present Civil Service Act, section 56, the government would pay two months' salary which of course is more than one-sixth of \$5,000. In that sense the government is putting in a little less but on the other hand we will be paying the full amount for a person who is in the scheme and dies in the first year—whereas under the Civil Service Act he would get nothing.

By Mr. Fleming:

Q. You are saying that there is a ceiling on the contribution in the case of a person on a higher salary?—A. Put it this way. A deputy minister gets \$15,000—that is the standard rate for senior deputy minister. Two months' salary is \$2,500 and before this bill comes into effect if a man drawing \$15,000 a year were to die in office his widow would immediately be paid \$2,500—two months' salary. When this bill comes into effect the widow will get \$5,000 but the government will only put in one-sixth—therefore the government will be putting in less.

Q. 833?—A. Yes. On the other hand there are cases, of course, where a public service employee dies before he has had two years of service. Under this bill that employee will be covered and the widow will get one year's salary up to a limit of \$5,000—whereas under the present Civil Service Act the widow gets nothing because the employee has not two years' permanency.

Q. Do I understand the effect in the case you are putting, regarding the payment made on the death of the deputy minister, that a greater share would be paid of out contributions of other civil servants than by the government—as compared with the present provisions?—A. In a sense, only. On the other hand, the higher paid employee is paying a premium on the full \$5,000—he is paying \$2 a month and is only getting \$2,500 additional benefit. It is true, however, that the government would be putting in a smaller share in the case of the higher paid employees than it would under the present Civil Service Act. On the other hand, there will be employees who would get nothing under the present Act and here the widow will get a full year's salary.

Mr. Low: How will it balance out?

The WITNESS: It is impossible to be precise. I am advised by those who have studied the figures that as far as we can tell there will be no additional cost to the Treasury.

Mr. MACDONNELL (*Greenwood*): Am I right in my figures when I calculate that the break-even point will be about \$5,000 salary?

The WITNESS: Yes, and the average salary of public servants is just under \$3,000.

By Mr. Fleming:

Q. I do not want to lengthen what might be an interruption of your remarks, but may I relate just one thing about which you have spoken—additional cost—to something you said earlier about there being little or no likelihood of additional administration costs. I take it you mean "additional" beyond the present cost of superannuation?—A. Yes. What I meant to say was this: administration cost will not be little, it will be quite significant, but it will be relatively modest because we have already the 120,000 civil servants' files. We do not have to create new files; there is no problem of election; there is no problem about how much he is covered for because that flows automatically from the pay sheet. The great bulk of the overhead is now being incurred under the Public Service Superannuation Act and this is a marginal addition of administration cost.

Q. I think earlier your remark in relation to cost was used as applying to those who might be stepping out of the service at the higher ages—and there would be little administration cost. What you are implying is that there would be little additional cost to the present administration cost—which consists of overhead and maintenance of the superannuation scheme?—A. We have not worked it out in detail, but at the present time the superannuation office employs about 110 people. That is the staff required to run the whole superannuation plan. We think this will involve a very modest addition, perhaps something of the order of 10 or 15 people, to the staff of the present superannuation office in order to carry this extra load. We think it will be a quite modest amount.

Q. Have you a figure for the present overhead and administration?—A. I have not the figures with me. I keep track of the monthly number of employees and last month I know that it was about 110 or 112 for the superannuation office.

The bill provides that there shall be an actuarial review in not less than five years. As I have said, we are in a field where our estimates on past experience may not turn out to be precisely accurate. Finally, the bill provides that section 56 of the Civil Service Act, which is the two months' gratuity section, will not apply to any participant in the scheme, but for a very small number of civil servants—for example, there are still a few under the old pre-1919 Retirement Act who elected not to come under the Civil Service Act and are not contributors—they are not covered by this bill. Therefore, they will receive two months' salary if they die while still employed in the public service.

The other repeal item, although it is not exactly a repeal item, provides that no new policies under the existing Civil Service Insurance Act will be issued unless the medical examination was under way prior to May 1, the day the Prime Minister announced this bill in the House.

That concludes my attempt to give you the general pattern of the bill.

By Mr. Fraser (Peterborough):

Q. In regard to one matter which Mr. Fleming mentioned, what would be the administration cost in regard to the armed services? Would that increase?—A. There is a Defence Services Pension Act which covers substantially the same body of persons and I understand from the Defence department that the same considerations apply there. They will have additional marginal cost, but the system is there—under the Defence Pensions Act. It will be merely adding another column, or whatever it may be, to the file of the individual.

Q. That would be in respect of deductions from their pay?—A. Yes.

Mr. APPLEWHAITE: Is it correct, Mr. Taylor, that a civil servant could contribute to this fund from age twenty to age seventy—retiring at age sixty-five—and have no benefit whatever.

The WITNESS: Yes, sir. A man not being employed in the civil service, dying after his seventieth birthday, would have no benefit.

Mr. Low: Except the protection.

The WITNESS: There would be no cash payment.

By Mr. Applewhaite:

Q. Out of the figures you are using, is it necessary, actuarially to curtail your death benefits and to cut them right out at age seventy?—A. Yes, sir, at the 40-cent rate.

Q. What is the rate charged now on types of group insurance plans which you know of being operated by the standard life insurance companies?—A. I

have not the figures. Before I came to the public service I was in a university group insurance plan where the rate was \$1.20 per thousand per month. In that case my employer paid half and I paid 60 cents.

Mr. MONTEITH: Was that straight life?

The WITNESS: Yes, and you kept on paying after retirement. If you died at age eighty you got something, but Mr. MacGregor of the Department of Insurance is in the room and you would be able to get facts relating to standard rates from him.

By Mr. Applewhaite:

Q. Did you and your department make some checks or investigations of standard group insurance plans before you formulated this one?—A. Yes.

Q. And the cheapest that you ran into was, I am correct in saying, at an over-all cost of \$1.20.—A. No, no, that was just my own experience.

Q. What I am trying to get at is this: what is the cheapest rate you found in your investigations?—A. I wonder whether in due course you might call Mr. MacGregor on that.

The CHAIRMAN: Suppose we complete the hearing of Mr. Taylor and then call Mr. MacGregor.

By Mr. Applewhaite:

Q. I have only one other question. In connection with members of the regular forces who are killed on active service, or die under such circumstances that their estates are entitled to pensions under the Pensions Act, is this bill applicable?—A. Yes, sir.

Q. In addition to anything provided by the Pension Act? There is no deduction whatever?—A. That is right. We gave some consideration to exclusion of war risks, but it was decided not to include any escape clause on war risks.

Q. If they are contributing under the bill there will be no deduction of any kind from any other benefit.—A. No.—other than what I call the equivalent to the two months' gratuity. There is an allowance paid to the family of a man who dies in the army which is roughly equivalent to our two months' gratuity. That would, of course, disappear.

By Mr. Michener:

Q. I would like to ask something about the arrangement for public service insurance under the Civil Service Act which Mr. Taylor mentioned was and has been in force since 1893.—A. With some changes.

Q. What kind of insurance does it provide and at what rate?—A. If you want to go into details I would rather refer you to Mr. MacGregor who administers that Act.

Q. This is a voluntary scheme of insurance open to public servants?—A. There is an upper limit of \$10,000 and there are about 13,000 policies presently outstanding. It is a very simple form of insurance. There are very few trimmings to it.

Q. These policies have the feature of ordinary insurance?—A. Yes.

Mr. BENIDICKSON: But they are not placed with private companies?

The WITNESS: No.

By Mr. Michener:

Q. We could get that from Mr. MacGregor.—A. Yes.

Q. Under the present pension scheme you mention that payments are made on the death of a civil servant while in office equivalent to two months' salary?—A. Yes.

Q. In every case?—A. They must have been regularly employed for two years.

Q. Have you any figures on the amount of money paid out annually under that heading?—A. Last year it was a little over a quarter of a million dollars.

Q. About how many people would be involved in that?—A. I would be glad to get those figures.

Q. I think it would be worth while having particulars of experience in that feature of those pensions. If a person dies in addition to that payment, if pensionable, there would be a pension paid to the widow or dependent children if there were dependent children?—A. Under the Superannuation Act, yes.

Q. So the present benefits payable under the Act on death are two months' salary and the normal pension arrangements?—A. Yes. The normal pension arrangements, of course, will continue, and the only change is that the two months' salary is changed to one year's salary with a maximum of \$5,000.

Q. How long does a person have to be in the service for his family to receive a pension?—A. They have to be in the service five years—contributing five years—to qualify for a pension to their dependents. If they die before five years the family gets a return of contributions.

Q. So everyone in the service now in the event of death does receive some payment?—A. Yes.

Q. Either by way of return of contributions or, if qualified, by an—A. By an annuity.

Q. Have there been any instances in practice of civil servants dying and the government having felt some responsibility for contributing toward that burial and other necessities—by reason of them being indigent?—A. The armed forces case is a special one. With regard to civil service employees certain expenses in regard to a civil servant's death while on duty at a distance from home are met. We have had members of survey parties who have been drowned in the Northwest Territories and so on. Obviously the government takes care of the return of the body and that sort of thing.

Q. Those are exceptions?—A. Yes.

Mr. FRASER (*Peterborough*): Foreign service would come into that—for the Department of External Affairs?

The WITNESS: I think so, but I am not sure.

By Mr. Michener:

Q. As a matter of policy, then, the government has not felt—apart from these ordinary cases—obliged to make any ex gratia payments to estates of deceased?—A. I would say that it is not government policy to do so, and I have never known of a case.

Q. This scheme will provide in all cases a lump sum payment on the death of someone covered by the Act?—A. Yes.

Q. I wonder if you could tell the committee how the demand arose for this scheme or what has brought this matter forward at this time?—A. There have been a number of representations which have followed two lines. One source of representations has urged the enlargement and the extension of the Civil Service Insurance Act—to increase the limit, to improve the type of policy, and to add what I call fringes and gadgets to the policy such as are provided by private insurance companies. That has been one line of representation which has been made to the government by public service organizations.

The second line has been a series of requests for a form of over-all group insurance. Without getting too far into the interpretation of government policy, I may say that the government decided it was not the proper function of government to go into an elaborate system of straight life insurance, writing individual policies for its own employees and so on, but, having regard to the

development of normal practice of good employers, where it has become a growing practice of good employers to provide some element of death benefit or group insurance as part and parcel of their pension plans, it seemed sensible to follow this line.

Q. There was no specific demand for this type of coverage. This is brought forward as the government's method of dealing with the two lines of request that you mentioned?—A. The government decided that it would not expand and elaborate the individual policy technique but that it was good policy and good personnel relations to develop a scheme of death benefits to be tied in with the whole superannuation scheme.

Q. I am curious to know what there is behind the combination of the public servants and the members of the armed forces. Being two completely separate categories of people with very little in common I wonder what made it advisable to have them both come under one scheme?—A. There will be two accounts in the government books which will be kept separately. There will be the armed services' account and the public servants' account.

When this matter emerged from the narrower circle of the Department of Finance and the staff associations discussions and it became known to the armed forces that this scheme was under active consideration, there was a request from the armed forces either to be included in the scheme or to have a parallel scheme to cover them.

Q. It seems to me that it raises very different problems on rating when you get two different risks. Obviously the armed forces are a much poorer risk. If this premium which has been reached is supposed to be actuarially sound.—A. It works both ways. The armed forces are a highly select and preferred group—except in time of war. They are young and they are presumably in excellent health and physical condition. We did make certain calculations about what would be the actuarial risk if we excluded death due to hostilities and, because of the select rating, it would be quite a bit lower than 40 cents if war risk is excluded. War risks under present day conditions of hostilities are quite incalculable—but even in the last two major wars actual deaths due to enemy action were not extraordinarily high. In 1914-18 they totalled about 60,000 and in 1939-45 about 40,000.

Q. I appreciate what you say, but the fact remains that in ordinary insurance practice, in addition to the normal risk of the civilian, the soldier has a risk requiring a very different rate to be applied—and it seems to me that by combining these two in one rate you are really making the public service pay the rate for the armed services.—A. The fact that the rates are the same at the moment is coincidental. It is proposed that for actuarial review the two will be kept separate.

Q. It will be a simple matter to change the rate for the armed forces if it is found that the cost is not parallel?—A. Yes.

Q. Would you tell us how the rate was arrived at?—A. It is based on the most precise actuarial calculations and mortality tables, but it is a question into which Mr. MacGregor might go.

Q. It is to be self-sustaining—with the one-sixth to be paid by the government?—A. Yes.

Q. Well, there are one or two further questions that I would like to ask but I will leave time for others and come back to them later.

The CHAIRMAN: Mr. Crestohl?

By Mr. Crestohl:

Q. I feel that this is a good piece of legislation but I am concerned with seeing that it should do the most good where it is most needed. That brings me to the public servants or, as you described them, the public service participants who are in the lower earning bracket—that is under \$5,000. Is it pos-

sible or would it be possible to set this up actuarially so that the maximum benefit could be enjoyed by those who are in earning brackets under \$5,000? It impresses me that they are the ones whose wives and children may need these benefits more than for instance those in the higher brackets. I see that in section 42 you speak about the participant contributing 10 cents per month for every \$250. Could that not be worked out so that those earning under \$5,000 could contribute on a sliding scale slightly more—so that they might be able to receive the full \$5,000 and not just their annual salary?—A. I presume it would be quite simple to work out the mathematics to give \$5,000 across the board to everybody.

Q. Why could those in the lower earning brackets perhaps not pay more and then be able to take advantage to a greater extent of this excellent piece of legislation?—A. It would, of course, require a larger deduction. As members of the committee will have observed there have been objections in the press to this scheme made by persons who represent considerable numbers of people—on the grounds that this is one more pay deduction, one more cut in the take-home pay. There are quite a few people who are not particularly anxious to have this benefit.

Q. Why then not give them the choice—give them an option?—A. The moment you get into options you get into all sorts of problems of election forms and so on, and you triple or quadruple the amount of paper work involved. Also, you have selection against you. The individual who is not quite sure of the state of his health, who thinks he has some particular disease or a weak heart will at once elect to have the \$5,000. The person who thinks he is well and healthy will elect to have the minimum amount.

Q. There is no doubt that those problems will arise, but the actual benefit of the legislation should be extended as far as possible. I think that people under \$5,000, those in the lower earning brackets, are the ones who would take advantage of the low rate and in that way this would do the most good to the most people.—A. As I remarked earlier, I think that it is common practice in most industrial plants to relate benefits to annual salary.

Q. I think we might be able to go a little further—so long as it is actuarially sound and it would not cost the Treasury any more money.—A. The payment of one-sixth would be a good deal more than two months' salary for those in the lower paid groups.

Mr. HENDERSON: Have the insurance companies of Canada either individually or collectively raised any objection to this legislation or made representation against it?

The WITNESS: I am not sure what you mean by "representations". Insurance officials are in and out of Ottawa a good deal on a variety of problems—on everything from the management of the public debt to seeing Mr. MacGregor on technical points. I have talked informally to some of them—I had telephone calls from insurance companies when they saw the item in the Speech from the Throne, inquiring what it was about, wondering whether they could be of any service, whether they could participate in the scheme. It is difficult to say what "representations" are. There have not been any formal briefs, but individual insurance companies have spoken to me and I think they have spoken to Mr. Abbott. I want to be frank with the committee but I am not sure what is meant by "representations". They take all sorts of forms.

By Mr. Noseworthy:

Q. Have these suggestions been discussed with the Civil Service Association employees?—A. Yes, sir. A general outline of the plan was presented in the form of a confidential memorandum to the National Joint Council of the Public Service of Canada. The National Joint Council appointed a sub-

committee to go into it in more detail. I met with that subcommittee. Some of my officials met with them. A number of meetings were held and the National Joint Council sent a report or a memorandum back to the government which in general heartily endorsed and approved the scheme. They made a number of suggestions for betterment of certain aspects of the scheme as originally outlined. Most of those have been accepted and incorporated in the bill. As Mr. Abbott said in the House yesterday afternoon, he did not want to imply that every member of the National Joint Council endorsed every detail of it. They made it plain that this was not a unanimous report of every single detail.

I should add that some members of the National Joint Council staff associations felt that they were in an awkward position in endorsing the scheme because we felt obliged to say to them that this was a confidential document which could not be taken back to their membership at large or even to their executive committees. So, the staff associations have been consulted through their representatives on the National Joint Council.

If I may go one step further I will say this: I understand the reason why the staff associations want a few days to consider their position is that their executives and their membership at large were not familiar with the outline of the scheme although their nominees on the National Joint Council were familiar with it several months ago—there were very extensive discussions.

Q. Was there any discussion about the question of whether or not employees should be given a higher possible maximum than one year's salary and whether they would be willing generally to have to pay more than 40 cents per thousand per month?—A. I really cannot speak to that, I am a past chairman of the National Joint Council, but I am not now a member, and I only met with the committee of the council on two occasions. I know they had many meetings themselves, but what was discussed there I do not know. I do know that they made a report which generally endorsed the scheme, made a number of suggestions and most of the suggestions were incorporated in the bill.

Q. What I was wondering was whether there was any general request or general desire on the part of civil servants to secure more than the equivalent of one year's salary?—A. I would think not. I cannot speak for the individual members of that committee but the committee as a whole did not suggest any change in the one year's salary with a maximum \$5,000. They approved that particular clause.

Q. How does the total amount payable and the rate under this new scheme compare with the present Civil Service Act—A. The present payment under Civil Service Act is non-contributory. It is *ex gratia*. It is a gratuity which the government pays of two months' salary. It goes to the widow of a civil servant of more than two years' service who dies while still employed.

Q. Is there any other form of insurance made available to civil servants?—A. There is the Civil Service Insurance Act going back to 1893 where the government sells individual contracts of insurance to civil servants. There are fewer than 13,000 individuals with policies because some individuals have more than one policy. There are 13,000 policies presently in effect.

Q. This has no effect on them?—A. No. Their contract is fully valid and will be honoured in full. All the bill says is that from now on no new policies will be issued.

Q. Is there any objection to the compulsory feature of this scheme on the part of any particular group of civil servants?—A. The views of the National Joint Council were that it ought to be compulsory and universal. Now, that does not mean that individuals representing particular groups on that committee may not have raised the question of the compulsory feature. I have seen in the press that certain groups of civil servants have objected. Individuals in

my own department have come to me and expressed a very dim view on this. They are usually younger girls in the service who have at present no intention of making the public service a career. They do not find this particularly attractive or particularly interesting. There are others who have said, "Well, I am carrying my full quota of insurance now and I do not need any extra." Others have said to me, "This is fine; it is a very modest cost and we can always do with \$5,000 more or \$3,000 more in the estate."

Q. There has been no organized protest on the part of any particular group?—A. No, and I assume that if there are some such views they will be given to the committee next Wednesday.

The CHAIRMAN: Before you came in, Mr. Noseworthy, I indicated that there were four service groups present but that we would not hear from them until our next meeting. They are not fully prepared.

Mr. NOSEWORTHY: I understand that this is to be made available to the armed services on the same conditions as the public service?

The WITNESS: Substantially the same. There will be two different funds. I want to make one more point. I am in fairly close touch with most of the civil service associations. I have been chairman of the National Joint Council in the past and I must say that the general reaction we have received is one of considerable enthusiasm for this whole plan.

Mr. APPLEWHAITE: I was going to ask a question in connection with the term "armed services." It is the regular forces only?

The WITNESS: Yes.

By Mr. Noseworthy:

Q. I understand that the scheme will be available to service personnel only while they are in the service and not after discharge?—A. They will have an option. They can elect to participate after discharge if they so wish and by paying what I call the full rate—if they have had five years' service.

Q. How would these rates compare with rates now paid by veterans for insurance?—A. We have not established the full rates. All I could say was that it will be 48 cents plus—because the government share is one-sixth. The "plus" will be a proper charge for administration costs and our auditors are looking into that now to establish a proper cost figure.

Q. Veterans of Korea, of World War II and of World I are paying for veterans' insurance and I am just wondering how the rates available to those who are discharged in the future will compare with those which other veterans will be paying?

The CHAIRMAN: Perhaps Mr. MacGregor will enlighten us on that when he is before the committee.

The WITNESS: It is quite a different policy—because this benefit dies at age seventy—even though the individual does not die.

Mr. PHILPOTT: I am getting some messages from irate maiden ladies, Mr. Taylor, who do not like the compulsory feature of this scheme and who say that the government should throw in a husband with every policy.

Some Hon. MEMBERS: Hear, hear.

The WITNESS: Members of parliament have their difficulties, too.

Mr. PHILPOTT: What I am trying to get at is this. We will be asking the civil service organizations next Wednesday whether spinsters were consulted. It boils down to this. We have now about 13,000 policies on hand and the new plan will cover 230,000. Will it be possible to lower the rate because of the

compulsory feature? Or does the compulsory feature bear entirely on any one broad group that cannot get any benefit out of this? In other words, we have a great many spinsters working for the government who have no hope of getting married.

The CHAIRMAN: No, no, no; you go to far, Mr. Philpott.

Mr. MONTEITH: You had better go carefully out in Vancouver.

Mr. PHILPOTT: Well, shall I say that statistically they have not got as high a hope as some other people of getting married. What I am trying to get at is this: Is there any way of satisfying any legitimate kick these people might have—and let me hasten to add—by giving them their benefit instead of making their benefit payable to their estate or a spouse when they have not got any spouse? Could it be transformed into an annuity for themselves in their latter years of life?

The WITNESS: That would involve a complete recasting of the whole scheme with a completely different rate structure.

Mr. MONTEITH: These are only term policies?

The WITNESS: This is the simplest form of term insurance.

Mr. MACDONNELL (*Greenwood*): Do not use the word "insurance". The minister won't allow it.

The WITNESS: I have had numerous talks with individuals in the class you have mentioned, Mr. Philpott, and on further consideration I find most of them have come to view this as a pretty good idea. If they have not got a spouse they often have favourite nieces or nephews and even spinsters incur liabilities in connection with their last illnesses and deaths—expenses which they would be reluctant to impose upon their other relatives or upon the state.

Mr. Low: I have one question arising out of what Mr. Philpott has asked. Has any estimate been made of the additional cost of the scheme if employees were given the right to contract out?

The WITNESS: The difficulty is that you would have to go into a medical examination scheme. The moment you start to give options and elections you at once move into a heavily adverse selection. Then there is another problem and we have found some analogous cases in the superannuation scheme. People opt out, circumstances change in three or four or five years and they want to get back in. That involves medical examination, and differential rates. You either reject them or let them in if they are in perfect shape or let them in with a penalty rate—and the first thing you run into is administrative costs which multiply five or sixfold before you know where you are.

By Mr. Monteith:

Q. Arising out of what Mr. Noseworthy asked earlier, I just wonder if there is going to be an opportunity for those members of the National Joint Council to go back to their groups prior to next Wednesday in order to get an opinion from them. You mention now that you only have their opinion as individuals. I wonder if they are going to be in a position to go back to their groups quickly so that next Wednesday they can give us an opinion of the whole civil service?—
A. It happened that last night I met all of the members of the National Joint Council. It was our tenth anniversary and we were all dining together. Certainly they will have a chance to consult their executives, including their regional representatives by telephone or telegram. On the other hand, I do not think it is fair to say that members of the National Joint Council speak in a purely personal way. After all, they are well established representatives of their own associations. They know pretty well the general feeling and attitude of their membership. It is true that most of them will want to consult their

executives with regard to some of the details of the scheme. I understand from those I spoke to last night that they will be quite happy to have had a few days in which to consult the official channels of their organizations.

Q. Just to clarify my own mind what the routine is, I would like to follow through the steps of this sloping clause where the rate goes down 10 per cent a year. What is the retiring age now?—A. There is no rigid retiring age. There is a sort of bench mark at sixty-five.

The CHAIRMAN: A bench mark—that is an interesting term.

Mr. FRASER (*Peterborough*): You mean that is where they go on the bench.

The WITNESS: If you like, there is a little flag put on their file at age sixty-five, but a person may be continued after sixty-five on the recommendation of the department.

By Mr. Monteith:

Q. May they retire before that?—A. Any person may retire voluntarily and go on an annuity at age sixty.

Q. Starting at age sixty, say somebody has paid into this fund, as I understand it, once it goes into force, the risk will be payable in full if the party should die the next day?—A. Yes.

Q. At age sixty, suppose somebody retires and does not decide to keep up the payments to continue the insurance and coverage. At that time do they immediately go off any benefits?—A. If a person retires at age sixty they have the usual thirty days to elect whether they will continue to enjoy the coverage which the bill provides.

Q. They will continue to pay their \$4 a month?—A. They will pay on the coverage at a declining rate.

Q. They will pay at a declining rate from then on?—A. Yes.

Q. As well as receiving the declining benefit?—A. They pay 10 cents per \$250 of coverage per month.

Q. Ten cents what?—A. Per \$250 coverage per month. At age sixty you are covered for \$5,000. On the sixty first birthday it drops to \$4,500 and the person only pays on \$4,500. Instead of paying \$2 he pays \$1.80 and at age sixty-two it drops at \$4,000 he pays \$1.60. At age sixty-three it goes down, and so on, and at age seventy both coverage and payments cease.

Q. If he retires at age sixty-five that decline then applies?—A. It has already started to drop at sixty.

Q. Oh, it drops at sixty regardless of whether he retires or not?—A. Yes. So long as he is employed he is covered for not less than two months' salary. At age sixty-five it drops to the half rate. Where a person makes less than \$5,000 a year at about age sixty-seven or sixty-eight it will stop declining because at that point you reach two months' salary.

Q. Does he continue then to pay on the small rate?—A. On whatever his coverage is.

Q. What happens at age seventy?—A. The employee is covered on the basis of two months' salary up to any age so long as he is still employed. I had one employee—he is not with me now—who was seventy-eight when he retired.

Q. And in the armed services once a person has been in the regular forces for five years if he retires he may keep it up? Say he retires at forty—may he keep it up to age sixty at the full amount?—A. Yes.

Q. And after that?—A. At the declining amount.

Mr. BENEDICKSON: Paying 40 cents plus the estimated cost of administration at retirement.

By Mr. Monteith:

Q. And the civil servant pays that estimated cost of administration?—
A. After retirement.

Q. They do pay the extra?—A. Yes.

By Mr. Fleming:

Q. Mr. Taylor, you referred to representations at different times in your testimony and you first of all referred to two lines of representation that had been made prior to this measure taking form. From what sources did they come?—A. The question of the Civil Service Insurance Act was raised in the National Joint Council while I was chairman of it.

Q. Excuse me—when was that?—A. I would say about three years ago.

Q. That was the first time it was raised?—A. I would not say that. I have no doubt that staff associations have been raising these matters on and off for many years.

Q. I should say perhaps actively raised?—A. Well, to my personal knowledge the matter was first raised about three years ago in the National Joint Council. A committee of the National Joint Council was appointed to look into the Civil Service Insurance Act. They had discussions with the Department of Insurance and certain interim reports were made on the nature of the coverage, rates of premiums, limitations and so on. One of the particular requests at that time was to extend the Civil Service Insurance Act to make all temporary civil servants eligible—temporary civil servants who had more than two or five years of service. Then there were questions as to whether the \$10,000 limit should be raised to \$15,000 or \$20,000—and things of that sort were discussed back and forth in the National Joint Council. Then, there have been representations on a second line from the staff associations in favour of some scheme which is broadly covered by the term “group insurance”, analogous to schemes that were becoming a growing practice among large private employers.

Q. I take it in regard to the two lines of representation which I understand were to some extent at variance with each other, you are indicating that both these lines of representation were from groups within the civil service?—
A. Yes.

Q. Not from outside?—A. No.

Q. In reply to a question by Mr. Henderson you spoke about representation being made in favour of the proposed plan. Are you referring to representations again entirely within the service or to any from outside as well?—
A. I do not recall any outside representations relating to group insurance or mortuary benefits until after the announcement was made in the Speech from the Throne that an Act would be introduced along these lines.

Q. From that time on what representations have you received from groups outside of the service?—A. My difficulty is to know what you mean by “representations”. I have had no representations in the sense of a formal submission by any outside groups, but individual executives of insurance companies have inquired what the government’s plans were. Private insurance companies wanted to know if they could be of help—if they could underwrite it. As soon as I was in a position to know what the government’s policy was I have, on occasion, given very general indications of the kind of scheme we were working on.

Q. That perhaps throws a little light on the next question I was going to ask about the expression you used earlier in your testimony when you referred to objection from a “considerable number of people.” Are you referring there to objections from within the civil service?—A. Yes. It is a considerable number of individuals. I have had individuals in my own

department, as I mentioned before—some of the groups Mr. Philpott was referring to. I have seen representations in the paper that one civil service organization had indicated, if not opposition, at least some doubt about the obligatory feature of it.

Q. I suppose we can take it that there has not been time yet for the organizations to arrive at their opinion and express it officially?—A. Yes.

Q. I just wanted to clear up the expression you used about a considerable number. You are referring not so much to organized representations as to individual objections?—A. I should perhaps put it this way. There have not been so many individual objections. We just assumed there would be a fair number of individuals in the civil service who would find this particular program not specially attractive to their particular circumstances at the present time.

Q. That leads me to ask a question or two about consultation with the National Joint Council and its special subcommittee. When did you first send that confidential memo to the National Joint Council?—A. Can I put it this way? Generally the idea was discussed with the National Joint Council well over a year ago. The document to which I referred was formally placed before the National Joint Council in November of last year.

Q. Is there any reason why that document should still be regarded as confidential or can it be placed before the committee?—A. I would rather take the view that consultation between the National Joint Council and the government in the negotiating stage ought to be privileged—in that there is a good deal of coming and going. I think the National Joint Council and the Minister should say whether recommendations made to the government should be made public.

Q. I suppose we can leave that over for further consideration. Now, that was November and you indicated that from that point on only the subcommittee was privy to the consideration and discussion?—A. No. The subcommittee which was a fairly large one did have a considerable number of meetings, but I think I am right in saying that the National Joint Council at its regular monthly meeting was kept informed of the progress of the discussions.

Q. There was nothing that was confidential to the subcommittee as such?—A. It was confidential to the National Joint Council.

Q. Yes, but not to the special subcommittee?—A. No.

Q. Now, were members of the subcommittee with whom you were discussing this matter understood to be committing themselves or anyone beyond themselves?—A. No, the staff side particularly wanted to make it very clear to me that since under instructions they were not free to discuss the details with their membership they therefore could only express views as individuals—and I should add as pretty well informed individuals, individuals who have had long experience with their organization. Nevertheless several members specifically—and I think the whole staff side generally—wanted to make it clear that they did not regard this as committing their entire membership.

Q. Their position was that they were strictly and personally speaking for themselves at that stage?—A. Yes, although I think you have to have some regard for who those individuals were.

Q. Oh, yes. I gather that in view of the confidential nature of the discussions they were unable to make any report to the membership at large until after the minister had introduced the bill in the House this week?—A. Right.

Q. Was there to your knowledge any circulation within the Department of National Defence of any information concerning these negotiations or the scope of the proposed plan that we now find employed in this bill—as distinguished from other departments?—A. I do know the details. The Depart-

ment of National Defence said that they would like to consult their area commands—I think that is the right phrase—and the Minister of Finance indicated that he had no objection to that consultation between the Department of National Defence headquarters and the regional commands across Canada.

Q. I take it then that was a form of consultation peculiar to that one department, namely the Department of National Defence, and there was no corresponding consultation with the personnel of any other department of government?—A. Well, consultation with the National Joint Council covers it.

Q. I am putting aside your consultation, the confidential communications with the National Joint Council, and I am dealing now with consultations or discussions apart from that, and I am asking you with respect to this form of consultation with the Department of National Defence—if that was a form of consultation peculiar to the Department of National Defence and not shared by any other department of government?—A. The National Joint Council on the staff side consists of eleven nominees of eleven different staff associations—the Civil Service Association of Ottawa, the Customs and Excise Employees Association, the National Revenue Employees Association, the Veterans Affairs Employees Association and so on—in other words, members of the staff side of the National Joint Council are nominees of the various national staff organizations of the civil service and there are eleven of them. I should not have omitted the Post Office employees, which is a very important representation on the staff side of the National Joint Council. What we were consulting was in effect the representatives of eleven different staff organizations, seven of whom are departmental organizations and four of whom cut across all departments. The Civil Service Federation is a broad group, and the Civil Service Association of Ottawa, the Amalgamated Civil Servants and the Professional Institute cut across all departments. The other seven represent departmental staff associations.

Q. I am sorry but you have not answered my question. I asked aside from what you have said of your consultation with the National Joint Council which you have already reviewed I was asking you with regard to the consultation with the Department of National Defence, was that consultation peculiar to that department and not enjoyed by other departments of government?—A. Yes. As originally drawn this bill was to cover just civil servants, but when the Department of National Defence expressed keen interest in coming into the same scheme, or developing a parallel scheme, certain principles were worked out to apply to the armed forces. When that program was spelled out and referred to the Department of National Defence they then asked whether it would be proper for them to consult their regional commands.

Q. At what point was it that the Department of National Defence expressed that interest?—A. It was around about the turn of the year.

Q. And up until that point are we to understand that the proposal had been considered as one for civilian employees of the government only?—A. Yes. It started off on that basis.

Q. In what form did the Department of National Defence indicate its interest in the scheme and how did the scheme come to the attention of the Department of National Defence?—A. Well, I think it would be fair to infer that Mr. Abbott had discussed it in cabinet.

Q. Without trying to pry into any cabinet secrets, I take it this began at the ministerial level and reached the Department of National Defence through the ministerial level?—A. When we have a draft bill in our department it goes to the Privy Council or cabinet office and before any bill is approved as a government bill it is approved by the cabinet and at that stage around about the turn of the year all the members of the cabinet would be aware that the plan that was being processed and the general idea had been mentioned in the Speech from the Throne. Sometime around Christmas or shortly after I got a call from

the assistant deputy minister of the Department of National Defence saying that there was considerable interest in this scheme and could we include in it the armed forces. I replied that of course it would raise certain problems but we would look into it. After a period of weeks, after the technical people looked into the problem, we came up with a possible scheme. That was then put to national defence as a possible scheme and at that stage they indicated that they would like to get the views of their area commands.

Q. That was done I presume in all area commands. Do you know?—

A. Yes, in Canada and abroad.

Q. What was the response from the area commands? Do you know?—

A. All I know is that we got a reply from the Department of National Defence saying they were in favour of it and would be pleased to go ahead, and would we incorporate it in the bill subject to cabinet approval.

Q. Did you make any study that would enable you to determine the cost of the scheme if the armed forces had been dealt with on any different footing than the civilian employees of the government?—A. I do not quite get the question.

Q. Have your studies advanced to the point where you are in a position now to indicate what the relative costs might have been had the armed forces been dealt with on any different footing in respect to such a scheme from the civilian employees of the government?—A. The two schemes are separate now in a sense, and it is a coincidence that the rates are the same. Mr. MacGregor could answer it in more detail, but my guess is had you excluded all battle risks from the armed forces coverage their rate would have been less than 40 per cent.

Q. Whose rate?—A. The armed forces.

Q. Excluding battle risk?—A. Yes.

Q. You have given as the reason, as I follow your testimony, for the compulsory feature of the scheme what might be called the simplicity of administration of it?—A. It is a little more than the simplicity. It is the whole question of adverse selection which is, of course, a fundamental point in all collective coverage. In most schemes where private insurance is underwriting it they will not take on a scheme without medical examination unless they get 75 per cent coverage for all present employees, and have it obligatory on all new employees. That is a pretty standard deal if a private insurance company entered this sort of business.

Q. Was consideration given at any time to having the scheme underwritten by an insurance company?—A. No.

Q. Your last answer was not intended to convey that?—A. What I was saying is the obligatory character of this scheme is the standard practice in private industry. I was tying this into the view that the government in this respect is following the policy of being a good employer doing what most good employers do.

Q. Into your last answer should not be read anything that was not intended to be implicit in it?—A. No.

Q. There was no consideration given to writing this through some other source?—A. No.

Q. Have you any figures on the number of married as distinguished from unmarried personnel in the civil service or armed forces who will come within the scope of this bill?—A. I do not have that with me.

Q. That is available and could be furnished to the committee?—A. I am sure that the central pay office must have it on their forms for income tax purposes.

Q. Has any consideration been given to allowing a free vote within the civil service and armed forces on this scheme now, before the details are announced, as to whether they wish it to be proceeded with or not?—A. No, we never considered having a referendum.

Q. The last question is this; if it should be more properly asked to Mr. MacGregor please tell me, Mr. Taylor: What in detail were the actuarial studies given to the scheme before it was announced?—A. I have only seen the memorandum of their final conclusion.

Q. I take it that should be probably asked of Mr. MacGregor?—A. Yes.

By Mr. Follwell:

Q. Do I understand correctly that this only applies to permanent employees of the civil service? The reason I ask this is there are many people who have worked for the government in the civil service for many years and still are classified as temporary employees?—A. The distinction between temporary and permanent is largely eliminated under the New Superannuation Act. Prior to last January there were about 60,000 persons affected by the Civil Service Superannuation Act and that was based upon the distinction between so-called temporaries and permanents. The Superannuation Act which came into effect last January abolished that distinction, and now everybody appointed to the civil service unless seasonal or casual must start to contribute to the superannuation fund and they will contribute to this scheme as well.

Q. They will?—A. They will.

Q. This so-called seasonal labour would not contribute to this scheme at all?—A. No.

Q. It is not then universal to all employees of the government?—A. There are about 150,000 persons on the government payroll in any given month. The figures I was given are that 123,000 would be covered by the Superannuation Act and this Act.

By Mr. Mitchener:

Q. Would that include Crown corporations?—A. Those under the Act, but not, for example, the C.N.R.

Q. Those figures include Crown companies?—A. Yes, all those under the Superannuation Act. There are about 30,000 employees who would not be covered. These are chiefly seasonal, casual, and prevailing rate employees.

By Mr. Follwell:

Q. We have many prevailing rate employees at the R.C.A.F. station at Trenton who have been employed for maybe four or five years, or ten years, but are still prevailing rate employees. Would they be covered?—A. Not unless they have been designated for superannuation purposes.

Q. The only employees that would automatically come under this are the people who have been designated for superannuation purposes?—A. Right.

Q. Then would these deductions be made at the source before they get their cheque?—A. Yes.

Q. It would be an irrevocable check off system?—A. It is obligatory.

By Mr. Pallett:

Q. Could you tell the committee if any plans have been made or brochures prepared with respect to informing the civil servants and members of the permanent armed forces as to this scheme for immediate distribution to them?—A. Yesterday, as soon as the bill had been introduced in the House, we supplied a two-page mimeographed statement to all staff associations in Ottawa outlining the pattern of the scheme.

The CHAIRMAN: I thought that after reading the *Citizen* or the *Journal* everybody would be fully informed.

By Mr. Pallett:

Q. Would you table that?—A. Yes.

Q. One further question, Mr. Taylor.

The CHAIRMAN: Everybody may have a copy. It will go in as an appendix. (See appendix A)

By Mr. Pallett:

Q. Are you able to tell us what distribution this will have amongst the civil servants?—A. few copies of this particular document have gone to each national staff association as the basis for their consultation over the next few days. Undoubtedly the department will, as soon as the bill becomes law, prepare the usual information brochure for all civil servants. Perhaps this would be a good occasion, Mr. Chairman, to say that the bill will come into force at a date to be proclaimed. It will not come into force the day of Royal assent because there is a fair amount of work to be done. I do not want to commit the Governor in Council but I would be surprised if we could possibly proclaim this before October 1st. It might be the 1st of January before this could go into effect. It took us almost nine months to proclaim the Superannuation Act. This should not take so long. I have here a booklet on the superannuation plan which puts the whole plan into simple language for the ordinary employee, and we will undoubtedly prepare a similar booklet for employees describing the nature of this new plan if and when approved. If in future years we have to reprint the superannuation booklet we would incorporate it in that.

Mr. PALLETT: You mentioned that there were 13,000 policy holders under the Civil Service Insurance Act. Are you able to tell me how many benefits have been paid to people under 60 under that Act?—A. Mr. MacGregor would have to answer that. That Act is not administered by the Department of Finance. It is administered by the Department of Insurance. An annual report is tabled in the House, and I have not got it here.

Q. Since it is compulsory is there any provision made, since the government is contributing part of this, with respect to the succession duties that may be payable on the \$5,000 paid out? I am suggesting there may be senior officials who perhaps have handled their affairs to date so that their estate would be non-taxable and this compulsory feature requires them to take \$5,000 insurance making them go over the taxable limit and it takes away the administration of their own affairs. I am wondering if there is any provision to take care of that?—A. It will presumably be taxable under the Succession Duties Act.

Q. Has the feature I have just suggested been considered? I suggest it is a very real one. People handle their affairs to minimize taxes, and they have \$49,900 which would be free of tax and this would immediately put them over that without having any choice?—A. It certainly will add to the man's estate, but he can still take advantage of whatever the Succession Duties Act allows.

Q. I do not, want to argue with you. But, one of the senior members of the civil service may have organized his estate to date and he has less than \$50,000. But, being obliged to take this policy of compulsory insurance he would immediately be over the tax limit—the amount for exemption—and would in fact not receive a benefit of \$5,000 because as soon as you go over \$50,000 you are faced with a tax of several hundred dollars. Since it is compulsory insurance it is a feature that I wonder about. In your earlier reference

you mentioned that the companies in the major industries where a scheme such as this was in effect say that 75 per cent must participate which would give a choice to the remaining 25 per cent.

The CHAIRMAN: The man you are thinking about could meet that exigency by making a gift and hope that he does not die within three years.

By Mr. Pallett:

Q. One further question. In your opinion would there be any serious demerit to this scheme if it were placed on the system of 75 per cent participation rather than 100 per cent participation?—A. Well, it would involve in the first place a fairly elaborate system of inviting elections, and I might say my experience of elections—

The CHAIRMAN: Politicians never invite elections.

The WITNESS: They have to make a written and formal choice. My experience on the Superannuation Act is that it is most difficult to get people to make choices within the time limit. I am quite worried now about our Superannuation Act. They have one year in which to elect, and I am disturbed at the small proportion of the 61,000 who have to make a choice who have since January 1st actually made their choice. We are giving thought to ways and means of publicity to try and get these choices in. Otherwise people will let it go too long and they are going to be sore.

Mr. FLEMING: You suggest they are only slow in matters pertaining to their personal affairs?

The WITNESS: Oh, yes! Then, as to the 75 per cent principle, as I said most private schemes start off on that basis but it becomes obligatory on all new employees.

By Mr. Pallett:

Q. Has any comparison been made with respect to the armed forces aspect of this scheme with the death contribution made by the American armed forces as distinct from civil service?—A. I am not familiar with what went on in the armed forces discussions. We gave general approval to their request and a scheme was worked in consultation with our technical people and we incorporated it in the bill. I do not know to what extent they studied the American scheme.

By Mr. Macdonnell:

Q. Mr. Taylor, you indicated that the discussions which had been had between the minister and the representatives of the civil servants had been confidential and the latter had not been able to discuss the facts fully with those they represented. Would it be a natural thing for them to have another interview with the department or do we take it that this bill is now final? that the civil servants have only this before them there is no chance of their making further representations to the minister?—A. The minister really can only deal with the National Joint Council, the representatives on the Joint Council. If the bill is passed in its present form, I should be surprised if over the course of years there will not be further representations. Discussions never cease on these problems.

Q. Do you happen to have any idea as to the average duration of service of the men in the forces?—A. No.

Q. Would you agree that it is likely not to be very long so far as the rank and file are concerned?—A. I just could not say.

Q. Of the permanent force. At the present time, of course, they will have pay deduction to keep them in good standing?—A. Yes.

Q. Now, then, when they leave it will be up to them then to make their payments?—A. They will have to first of all elect within 30 days to participate and secondly they will have to pay their premiums.

Q. So that if a man enlists at age 20 and goes out at age 30, then for the rest of the time up to age 60 he will have to pay his premiums month by month or whatever the period is?—A. Yes. So long as he wants to; he can always let the policy lapse of course.

Q. Yes. I am raising the question because I hazard the opinion that the average length of service will not be more than ten years. I raise the question whether it is likely that a very large number of them will continue to pay month by month for many years afterwards.

The CHAIRMAN: Did you hear Mr. Claxton's statement in the House that only one out of seven "took out" from the army?

By Mr. Macdonnell (Greenwood):

Q. It has only been going a few years, and I think it might be of interest to find from other armies what the average duration is.

Mr. HENDERSON: We treat them better.

By Mr. Macdonnell (Greenwood):

Q. What effort has been made under the existing Civil Service Insurance Act to get people to take out policies? Has it been left entirely to them?—A. Generally speaking we do not put any sales effort behind it.

Q. I would assume that it is so. These people who have shown the initiative of doing it for themselves are now to be included in the compulsory scheme, and I think the question may be asked whether you had ever considered leaving them out. Would you consider they have perhaps a special claim to come in on a voluntary basis, or is that administratively impossible?—A. We had not considered that as a practical proposition. They could, if they did not want to carry the present amount plus \$5,000, adjust their present individual contracts accordingly if they wished to.

Q. What is the reason for this reduction after age 60? Is it that men who die at 65 are considered to have less expenses than those who die at age 55?—A. Partly that. It is also a very common practice in private schemes for the benefit to be paid only when the person is still employed or very shortly thereafter. One of the main features was to get the maximum coverage at the lowest possible cost.

Q. Yes. That is very nice except for those people—whose benefit disappears. I will now leave that. Why is the disposition of the money restricted as it is. It is payable to the spouse, or if there is no spouse to the estate?—A. One particular feature there is this: We have found it important from the point of view of human relationship to make the payment to the widow at the earliest possible time. In my department I have a standing rule that the two months salary cheque is to be delivered to the widow within 48 hours.

Q. What gives you that dictatorial power?—A. That is in my department.

Q. I still ask the question?—A. It is authorized by the statute, that two months' salary is authorized by statute.

siourselvesb—A.ir

Q. It is paid to the widow by statute?—A. Yes.

Q. I thought you were indicating you did it on your own. Why is at the present time the disposition of this money is fixed and limited in a way it is not for the average person?—A. This is getting into the realms of policy or philosophy.

By Mr. Michener:

Q. Is there any further reason for not giving the beneficiary or the insured greater scope in naming the beneficiary under this Act? There are just two categories, the spouse or the estate.—A. The question was raised first of all whether it should be made to the spouse and if there was no spouse to the children, and if no children to the estate. Then you get into the problem of children of a man aged 60 who when he dies are 40 years of age. Then the question came up should you some way earmark it for children under 18 or 21, and after considering all the problems the decision was to make it payable to the spouse or if there was no spouse to the estate.

Q. If the insured made a will that would dispose of what went to the estate; but after all, there is a restriction here which does not exist in the case of the ordinary group policy holder and I do not see the purpose of there being that limitation on the insured person that he may not name anyone other than the spouse or the estate.

By Mr. Macdonnell (Greenwood):

Q. I submit Mr. Taylor has not answered my question, only to suggest that the legislators can do better for a man than he can do for himself. In other words, these men are subject to a paternalism which the rest of us have not yet.—A. This is primarily designed to meet the costs that are incurred at or around the time of death, and the consequential costs, that are normally borne by the widow, and this is a part of the superannuation scheme. Under the Superannuation Act, of course, the annuity goes to the widow. If a man dies before his dependents acquire an entitlement to an annuity the widow gets the return of contributions, and so on.

Q. Am I right in understanding that the government is going to pay its one-sixth of each amount as it falls due and assume that it will assume that the amount runs along more or less the same year by year?—A. The contribution by the employee will go into a special fund and be kept separate. The government will pay interest on any balances in those funds. The government will not contribute to the fund month by month but whenever a claim occurs the government will bear one-sixth of the cost of the claim and five-sixths will come out of the fund.

Q. In other words, they assume each year will be like the year before, that there will be no wide variation in the amount year by year?—A. Yes, that is a reasonable assumption with as large a group as we have here. Then, there will be an actuarial report.

Mr. Low: At the end of five years.

The WITNESS: Not later than five years.

By Mr. Henderson:

Q. Mr. Macdonnell was inferring that this might take away some civil liberties from the participants. I would like to suggest to you; do you think, that all the people of Canada would like to be in on it if they could?—A. I am much less competent to speak for all the people of Canada than are the members of the committee.

Mr. NOSEWORTHY: Section 50—

The CHAIRMAN: We are not dealing with sections of the Act at the moment.

By Mr. Noseworthy:

Q. Just that point. Is it customary for insurance policies to indicate that before the amount is paid that all bills incurred through sickness and undertaker's fees shall be first paid, or is this the only type of insurance where that

specification is made?—A. The Treasury Board now has power under the Superannuation Act in special cases to authorize the use of certain sums to defray or reimburse the person who has borne the funeral expenses and so on.

Q. The only criticism I have heard of this—incidentally when we were talking about all this information being handed out to civil organizations being confidential I heard all the general terms of this legislation months ago from civil servants, so it is fairly common knowledge down through the ranks about this bill. I do not think it is secret. The only criticism I have heard is that the entire scheme is being introduced by the government to underwrite the undertakers.

By Mr. Michener:

Q. As I understand the scheme if it is actuarially sound it should not cost the government anything more than the two months pay which is now provided for by statute in the event of death?—A. Mr. Abbott said, our expectation is that this will not add anything to federal expenditures.

Q. Both the premium which is based on an actuarial calculation and the administration expense will be paid by the insured public servants?—A. The administration costs will be an added expenditure. The government's contribution to the whole scheme is one-sixth of the benefits plus administration.

Q. One-sixth is now being paid in any event?—A. We will pay a little more to some people and a little less to others.

Q. And the administration expense?—A. Would be dealt with in the ordinary course by the superannuation branch, and I hazard a guess that the additional expense will be quite modest.

The CHAIRMAN: That concludes Mr. Taylor's evidence. We will have further representations on Wednesday, and then Mr. MacGregor has a few matters on which he will be heard and you will wish to question him.

The committee is adjourned until Wednesday morning at 11 o'clock.
... the committee adjourned.

APPENDIX "A"

SUPPLEMENTARY DEATH BENEFITS UNDER THE PUBLIC SERVICE SUPRANNUATION ACT

Introduction

The Bill to amend the Public Service Superannuation Act which is presently before Parliament provides for a death benefit which will supplement the benefits already provided for persons in the Public Service under the Public Service Superannuation Act and for members of the regular Armed Forces under the Defence Services Pension Act. This legislation will form a new Part II of the Superannuation Act.

The benefit will be payable in the form of a lump sum to the surviving spouse or, if there is no surviving spouse, to the estate of the deceased. It is designed to provide funds immediately to cover the inevitable expenses arising out of or consequential upon the last illness and death of a person covered by the plan.

Coverage

The Bill provides for participation by all persons employed in the Public Service who are contributing or who have completed their contributions under the Public Service Superannuation Act and by all members of the regular Armed Forces. In the case of employees of Crown Companies and other groups outside the Civil Service proper who are contributing to the Superannuation Account it is left to the regulations to determine which ones should be included under this plan.

In all cases where the participant has been in the Public Service or the Armed Forces substantially without interruption for five years or more he may remain under the plan provided that he elects to do so within thirty days of leaving and that he keeps up the payment of his contributions after he has left.

Benefits

The amount of the death benefit up to the age of 60 in the case of public service employees will be the employee's annual salary adjusted upward where necessary to make it a multiple of \$250 but with a top limit of \$5,000. In the case of the Armed Forces the amount will be \$3,000 for those below the rank of Chief Petty Officer in the Navy and equivalent ranks in the Army and Air Force, and \$5,000 for all others.

Once a person is over the age of 60, the normal death benefit starts to reduce, going down by 10 per cent a year from then on. It should be noted however that while the participant is still employed the minimum benefit is one-sixth of his salary. Otherwise there is no benefit payable after the age of 70. The reducing factor will also apply in the case of the Armed Forces participants but because of their lower retiring age it would probably never apply while they are active members. The contributions described in the following paragraph will be automatically reduced as the benefit reduces.

The death benefit in respect of a person who remains under the plan after leaving the service commences at the level applicable to him at the time he left.

Contributions

The contributions for those still employed in the Public Service or those who are members of the regular Armed Forces is 10¢ per month for every \$250 of benefit available to each participant. Thus a person with a \$2,500 salary pays \$1.00 a month and one with \$4,000 pays \$1.60 a month. The maximum is thus \$2.00 a month.

There is provision for an increased rate of contribution for those who choose to remain under the plan after they resign or are on leave of absence.

The contributions both before and after retirement will not be exempt for income tax purposes.

The Government contribution is one-sixth of the benefits paid out under the plan in respect of those who die while employed, as members of the regular Armed Forces, or in receipt of an annuity which commenced immediately on retirement under either the Public Service Superannuation Act or the Defence Services Pension Act.

Provisions Under Other Acts

The present gratuity equal to two months pay on death in the service will no longer be paid in respect of public service participants. It will still be paid in respect of any one who is not covered by this Act but is covered by the Civil Service Act. The interim allowance payable on death in respect of married members of the regular Armed Forces will also be discontinued once this becomes law.

Finally with reference to the Civil Service Insurance Act it should be noted that while no new contracts will be issued unless they satisfy the requirement that the medical examination leading to the contract began before May 1, 1954, old ones are left intact.

General Observations

This bill is not intended to provide for the normal life insurance requirements of individuals. It provides a moderate death benefit of a kind commonly made available to employees by a growing number of large private employers. Public servants, like all other citizens, will have to make their own provision for their own individual requirements in the form of life insurance in accordance with their individual needs and circumstances.

HOUSE OF COMMONS

First Session—Twenty-second Parliament, 1954

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: DAVID A. CROLL, *Esq.*

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 31

BILL 463

An Act to amend the Public Service Superannuation Act.

THURSDAY, JUNE 3, 1954

WITNESSES:

Mr. K. W. Taylor, Deputy Minister of Finance; Mr. K. R. MacGregor, Superintendent of Insurance; Mr. E. B. Armstrong, Assistant Deputy Minister of the Department of National Defence; Mr. Fred Whitehouse, President of the Civil Service Federation of Canada; Mr. James Lowther, President of the Professional Institute of the Public Service of Canada; Mr. Victor Johnston, President of the Civil Service Association of Ottawa; Mr. T. Gough, National Secretary of the Amalgamated Civil Servants of Canada, and Mr. W. Hewitt-White, Secretary of the D.V.A. Employees National Association.



MINUTES OF PROCEEDINGS

THURSDAY, June 3, 1954.

The Standing Committee on Banking and Commerce met at 11.30 o'clock a.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Applewhaite, Benidickson, Cardin, Dumas, Fleming, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Hellyer, Henderson, Huffman, Hunter, Johnston (*Bow River*), Low, Macdonnell, Macnaughton, Matheson, McMillan, Monteith, Noseworthy, Pallett, Philpott, Robichaud, Weaver and Wood.

In attendance: Mr. K. W. Taylor, Deputy Minister of Finance; Mr. K. R. MacGregor, Superintendent of Insurance; Mr. H. D. Clark, Finance Officer of the Department of Finance; Mr. S. Samuels, Solicitor to the Treasury; Mr. E. B. Armstrong, Assistant Deputy Minister of the Department of National Defence; Mr. Fred Whitehouse, President of the Civil Service Federation of Canada; Mr. James Lowther, President of the Professional Institute of the Public Service of Canada; Mr. Victor Johnston, President of the Civil Service Association of Ottawa; Mr. T. Gough, National Secretary of the Amalgamated Civil Servants of Canada and Mr. W. Hewitt-White, Secretary of the D.V.A. Employees National Association.

The Committee resumed consideration of Bill No. 463, An Act to amend the Public Service Superannuation Act.

The Chairman tabled briefs received from the following Associations:

1. Amalgamated Civil Servants of Canada
2. Civil Service Federation of Canada
3. Professional Institute of the Public Service of Canada
4. Civil Service Association of Ottawa.

Mr. Gough was called, examined on the brief presented by his Association, and retired.

Mr. Whitehouse was called, examined on the brief presented by his Association, and retired.

During the course of the proceedings, Mr. Taylor answered questions specifically referred to him.

At 1.00 o'clock p.m., the Committee adjourned to meet again at 2.30 o'clock p.m. this day.

AFTERNOON SITTING

The Committee resumed at 2.30 o'clock p.m. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Benidickson, Breton, Cannon, Cardin, Dumas, Fleming, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Hellyer, Henderson, Huffman, Hunter, Johnston (*Bow River*), Low, Macdonnell, Macnaughton, Matheson, McMillan, Monteith, Noseworthy, Pallett, Philpott, Robichaud, Weaver and Wood.

In attendance: Same as at the morning sitting with the exception of Mr. Fred Whitehouse, President of the Civil Service Federation of Canada.

Mr. Lowther was called, examined on the brief presented by his Association, and retired.

Mr. Johnston was called, examined on the brief presented by his Association, and retired.

Mr. Hewitt-White was called, made a statement on the bill under consideration, and retired.

Mr. Armstrong was called and examined on the method of canvassing the Armed Forces for their opinion with respect to the plan contemplated in the bill under consideration, and retired.

Mr. MacGregor was called and examined on the benefits accruing to those covered by the proposed plan, and the costs thereof.

At 6.10 o'clock p.m., the examination of Mr. MacGregor still continuing, the Committee adjourned to meet again at 8.00 o'clock p.m. this day.

EVENING SITTING

The Committee resumed at 8.00 o'clock p.m. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Benidickson, Dumas, Fleming, Follwell, Fraser (Peterborough), Fraser (St. John's East), Hanna, Hellyer, Henderson, Huffman, Johnston (Bow River), Low, Macdonnell, MacEachen, Matheson, McMillan, Monteith, Noseworthy, Pallett, Philpott, Robichaud, Weaver and Wood.

In attendance: Mr. K. W. Taylor, Deputy Minister of Finance; Mr. K. R. MacGregor, Superintendent of Insurance; Mr. H. D. Clark, Finance Officer of the Department of Finance; Mr. E. B. Armstrong, Assistant Deputy Minister of the Department of National Defence; Mr. James Lowther, President of the Professional Institute of the Public Service of Canada and Mr. W. Hewitt-White, Secretary of the D.V.A. Employees National Association.

The Committee resumed the examination of Mr. MacGregor and he was retired.

Mr. Taylor was recalled, further examined and retired.

At 9.20 o'clock p.m., the Committee adjourned to meet again at 11.30 o'clock a.m., Friday, June 4.

R. J. GRATRIX,
Clerk of the Committee.

(Note: The meeting called for Friday was postponed until Monday, June 7.)

EVIDENCE

THURSDAY, JUNE 3, 1954,
11.30 a.m.

The CHAIRMAN: Gentlemen, I see a quorum.

I propose to place on the record the briefs which have been submitted by the following organizations: The Amalgamated Civil Servants of Canada, The Civil Service Federation of Canada, The Professional Institute of the Public Service of Canada, The Civil Service Association of Ottawa. These briefs were placed in the hands of members sometime yesterday and I am confident that they have already been read. I propose to follow this procedure: to call the gentlemen who will speak to these briefs and they can either read them or speak to them, then questions may be put.

Mr. MACDONNELL: I hope they will be read. Are we going to have any representatives of the armed services here?

The CHAIRMAN: I have had no request from the armed services to be heard.

Mr. MACDONNELL: As they number over 100,000, I suggest that it would be a very serious gap in our information if we do not have a representation from them. I make this point for your consideration now.

Might I ask this: I understand that when the briefs are read in each case the representatives will explain to us the relationship of the National Joint Council which was referred to the other day and I understand has been the contact group. We would like to have the relationship of each organization to the National Joint Council made clear and it would be useful also if they would describe their organization, the number of people they represent, and also what percentage of the total of the civil service they represent. That I am sure would be relevant information.

The CHAIRMAN: I think so. Mr. Hewitt-White of the D.V.A. National Employees Association is here. He has no brief, but we will hear him, after we have heard the others.

Gentlemen, the first brief we have is the brief of the Amalgamated Civil Servants of Canada. Mr. T. Gough, the National Secretary Treasurer, is here to speak on their behalf.

Mr. T. Gough, National Secretary Treasurer, Amalgamated Civil Servants of Canada, called:

The WITNESS: Mr. Chairman and gentlemen, as suggested by one of the members of your committee I will read the brief.

The Amalgamated Civil Servants of Canada, constituted as it is, and accepting into membership all classes and levels in the civil service is, in most matters affecting civil servants, able to give an authoritative opinion. This being due to close contact and liaison, in our local councils, between employees of all departments.

However, in the matter of death benefits, and not to labour the point, no organization on the National Joint Council had authority to either consult national executives or membership until Wednesday, May 26. On which day the second reading of the bill was given in the House of Commons. From that date to this being far too short a time to afford proper consultation. Therefore, in consulting the National Joint Council some twenty individual

views were obtained by the government. It being clearly understood that no staff-side representative could be considered as speaking for his or her organization.

I am in no position today to support the bill in all its aspects. From a sampling of opinion received today, however, it appears that the principle of the bill is widely acceptable. On the other hand, opposition is developing to the compulsory feature. In evidence of this I would cite a telegram received from our Vancouver local council. A council with a membership of close to one thousand.

Vancouver local council agree in principle to life insurance (death benefits) scheme but protest compulsory clauses. (Sgd.) E. B. Clarke, Secretary.

The bill now before your committee replaces civil service insurance which was voluntary and elective. This, I believe was, in major part, subscribed to by the male portion of the service. Very naturally the turnover in female employees is very high, in the age group between twenty and thirty. In this it appears that in spite of the clause which provides for continued coverage, under certain conditions, upon severance, there is opposition to the compulsory feature by these employees.

I would, therefore, on behalf of my organization very strongly and heartily support the principle of the bill, and in this also express to the government our appreciation. On the other hand, I must just as strongly oppose the compulsory features of the bill, and request the same be amended so as to provide that the plan become elective.

The sympathetic consideration of your committee, is requested by this organization.

The Amalgamated Civil Servants of Canada is a member of the National Joint Council of the public service of Canada. As indicated in this short brief we take into membership civil servants of any department of government. The membership at this moment, give or take a hundred either way, is approximately 9,000.

My Mr. Macdonnell:

Q. That is 9,000 out of something over 100,000?—A. That is right, sir.

Q. I would gather from what you have said that you have membership right across the country. For instance, you have a message here from Vancouver?—A. That is right.

Q. On what basis do you seek representation? For example, here we find the Civil Service Association of Ottawa and the Civil Service Federation of Canada. Would I be right in saying that you have in your membership members who are also members of these other organizations?—A. No, sir. We are a separate and distinct organization.

Q. No overlapping?—A. No.

Q. On what basis do you see your membership as distinct from the others?—A. In the Civil Service of Canada there are two types of organizations and they follow the industrial pattern of the Trades and Labour Congress and the Canadian Congress of Labour. One type of organization, the Civil Service Federation of Canada, follows the type of organization of the Trades and Labour Congress, which is to organize by crafts rather than by industries. This organization is organized on the basis of the Canadian Congress of Labour that all employees of one employer should be in one organization. So, we are a separate and distinct organization from the Civil Service Federation of Canada; there is no overlapping of membership.

Q. I would like to ask one or two other questions. I take it that we will be able to ask further questions later. You say you heartily support the

principle of the bill. What do you regard as the principle?—A. The principle of the bill is the death benefit as provided, and the exception that we make is the compulsory feature.

Q. Then, your objection to the compulsory feature, is that a matter of principle with you?—A. If I may say, as I pointed out in my brief, because of the time from last Wednesday to date and in view of the widespread nature of my organization I have not at this moment a complete picture, and I just say that the opposition is developing. We have approximately 80 local councils and have only heard from a few.

Q. You have anticipated the question I was going to ask which is what steps have you taken to sound out your membership and whether you are continuing to take further steps?—A. I advised all of my councils on Thursday last week after receiving the memorandum of the bill.

Q. How many councils are there.—A. Approximately 80.

Q. You have heard from how many?—A. Five, including the telegram from Vancouver.

Q. Would the responses you have had from the five councils be such as to make you feel that they would go along with these two statements you make in the second last paragraph?—A. Yes.

Q. In favour of the principle but equally opposed to the compulsory feature?—A. I am anticipating that the majority of my replies will be as laid down in this brief.

Q. So, you have only been in touch with five out of 80?—A. Only received answers from 5; I have been in touch with all of them.

Q. You have had answers from 5. Did you put a series of questions up to them, or did you ask them in a general way?—A. At the time we received the memorandum, which was Wednesday night of last week, it was our understanding that this committee would sit on Wednesday morning, so, therefore, I sent this matter out more as a matter of information rather than a matter of asking for opinions, because we did not anticipate that this or any other organization would have a chance.

Q. But, what is your position with respect to the 75 that you have not heard from yet? Have you since then indicated to them that you still want to hear from them?—A. I am expecting to hear from them; not, of course, all of them, but the majority of them.

Q. You would expect to hear their opinions from the majority of them, and you have heard from 5 out of 80?—A. Yes.

By Mr. Fraser (Peterborough):

Q. Your organization represents what class of civil servants? Is it all classes?—A. All classes, whether they are letter carriers, customs men, from the Department of Veterans Affairs or National Defence—we have membership in all departments of government.

Q. Then some of your members are in your organization, and then perhaps in another?—A. They would not belong to two. It is a matter of the basic principle of the organization, which you believe to be the most useful.

Q. In your brief, you say:

However, in the matter of death benefits, and not to labour the point, no organization on the National Joint Council had authority to either consult national executives or membership until Wednesday, May 26.

Who gave that authority?—A. The authority was in the release, sir. Up to that time the National Joint Council was not permitted to consult their membership or even advise them of what was going on.

Q. That is the first chance they had?—A. That is the first chance we had.

Q. Do you feel you should have more time even now?—A. That is a difficult question.

Q. I thought it would be, but I just wondered if you feel that you should have a longer period of time in order to consult—A. We feel that we should have had more time before the bill was introduced.

Q. Now that the bill is introduced and is before the committee, is there any chance that you can get these other 75 branches to give you the information that you require?—A. Possibly I might get the majority of them by the middle of next week, but that is as close as I could say.

The CHAIRMAN: For the information of the committee, I ask you this question: on February 2 of this year, under the by-line of Alex. Hume, who is well-known and recognized authoritative correspondent on the "Citizen", there appeared a story under the heading "Reveal further details on C.S. death benefit Act". The details in the story are as full and complete as they are in the proposed bill. I can only say that they were even more accurate than Ivory Soap claims to be pure. I am told that the "Journal" also kept its readers informed, so that on February 2 there did appear a story. Did you see it?

The WITNESS: Yes, this matter was discussed at the National Joint Council and we were still not given the opportunity of circularizing either our executives or the membership.

Mr. FRASER: (*Peterborough*): You did not know the details of the bill?

The WITNESS: No, we could not even pass on what was in the newspapers. We knew from discussions that it was almost factual.

The CHAIRMAN: I do not want to place the whole story on record, but take my word for it that it is factual. There may be more details in the Bill than there were in the press report, but it was very fully detailed.

By Mr. Pallett:

Q. Is it customary that you receive communications from the government via the newspapers?—A. I think this was an error, which was admitted to us at the National Joint Council. It was a slip-up.

Q. Who slipped up?—A. That I do not know.

By Mr. Applewhaite:

Q. I gather that your present impression is that your membership favours the principle of group death benefit insurance, but not on a compulsory basis?—A. Right, sir.

Q. Would you be able to say whether your membership would expect the cost, if it was not compulsory, to be very much greater than that set out in the bill?—A. That is a factor that has not come under review, sir.

Q. May I put it this way? Do you think your membership expects that they could get this coverage on an elective basis as cheaply as if it was compulsory?—A. I would say that that is what they believe, whether it is a fact or not.

Q. In your position, you would not expect that yourself?—A. I do not believe in Santa Claus any more, sir.

Q. Has your head office taken any steps to draw that feature to the attention of members?—A. No, as I explained to one of the previous questioners, I had not anticipated that with my original release there would be any opportunity of any discussion on this matter.

Q. I was not criticizing you for not having done so, but I was just wondering whether the fact that a selective policy is always more expensive than an over-all compulsory coverage?—A. I would say that you are correct.

Q. Have you any statistics in your organization covering the proportion of your membership which is male and female?—A. I would say that I have not the exact statistics, although it would be available if we checked our check-off cards. I would say, roughly, in the nature of twelve to one.

Q. Which way?—A. Twelve male to one female.

By Mr. Philpott:

Q. Mr. Gough, your offhand impression coincides with my own reaction. I want to ask you some questions. You say you have this message from the Vancouver council, which represents 1,000 members?—A. That is right, sir.

Q. You sent them out the message last Thursday?—A. Yes, sir.

Q. And this is Thursday. Physically how was it possible, between last Thursday and this Thursday to get a meeting and properly to consult the 1,000 members of your organization in Vancouver?—A. As it is indicated in here from the wire received, the council, which constitutes, if you like, four members from each department of government, met and discussed the matter, and I am assuming, since we sent sufficient copies to local councils, that each group discussed the matter before their representatives met in council.

Q. In the samples of opinion that you have got from your organization, have you noticed any differentiation between the classes? Where does the chief kick come from?—A. There is no indication as to where it comes from, simply because it is from a council, and a council can be composed of any number of groups or only one or two groups.

Q. You must know that the ones who are really sore at this scheme are the spinsters. Is your information that the chief opposition to this compulsory plan comes from the maiden ladies?

Mr. NOSEWORTHY: Unclaimed treasures.

The WITNESS: I have no information on that point.

Mr. PHILPOTT: Would you say from your information that the people who favour this tend to be the married men with families, and the people who oppose it most strongly tend to be the maiden ladies?

The WITNESS: I would say that that is a reasonable assumption.

Mr. PHILPOTT: Thank you.

By Mr. Fleming:

Q. Mr. Gough, I take it that you and your organization regard this entire matter as one of considerable importance?—A. Right, sir.

Q. Important enough to call for adequate consultation?—A. Right.

Q. I gather also from your brief that you feel that there has not been adequate time given to your organization for the kind of consultation that a measure of this importance ought to have?—A. Yes, sir.

Q. You have drawn attention, I notice, to the fact that the National Joint Council was released from the secrecy that had attended on its efforts and proceedings up to that time only on the day the bill was given second reading in the House?—A. That is right.

Q. You were asked about a newspaper article that appeared on February 2. It is a fact that you yourself were a member of the National Joint Council, or was your organization represented there?—A. I have only recently taken over the seat on the National Joint Council. When this matter was discussed in December, the former national secretary who has now retired was the one who was in on those discussions.

Q. I would suggest to you, for your comment, that the fact that a newspaper report appeared in the midst of the discussions, particularly when it was so extraordinarily accurate in its review and the details, would have the effect of making it more difficult than ever for anyone on the council to entertain the

thought of consultation with anyone else?—A. The only thing I can say to that is that this newspaper study was drawn to the attention of the chairman of the National Joint Council at a National Joint Council meeting and we asked, in view of that, if we could now consult our membership, and we were told we still could not consult our membership in spite of the newspaper story.

Q. In view of the importance you attach to consultation, may I ask you how long it would now require to consult your members in the way that you feel they ought to be consulted in a matter of such importance?—A. As I have indicated to the chairman, I think possibly I would be in a position to give a more thorough picture of the opinion of the majority of all members in approximately one week.

Q. And do you feel that your members should have that right?—A. Yes.

Q. What do you think as to the feasibility of conducting some kind of a poll throughout the civil service and armed forces of those who are going to be affected by this bill to determine where the feeling of those affected by it really lies?—A. To make such a poll effective, sir, it would have to be attached, I would imagine, by the government to salary cheques. You might get a very clear picture but you certainly would not get the entire service if our organization polled our membership because there are considerable in the service who do not belong to any organization.

Q. Let us leave aside for the moment the difficulty of getting a poll conducted among the armed forces, what is your comment, as to the feasibility of conducting any kind of a poll among the civilian employees of the federal government who would be affected?—A. As I said it could not possibly be a complete poll because as I said there is a considerable number of the service that is not organized and if we conduct it we would not have a complete picture. The government could conduct it by an attachment to a salary cheque.

Q. You are saying that a poll conducted through the various organizations of the civil service would not be complete because they do not embrace all the civilian employees of the government?—A. That is right.

Q. Now, what do you say as to the feasibility of a poll conducted under government auspices?—A. That would take considerable time.

Q. But it is in your opinion feasible?—A. It could be, yes.

Q. On the matter of the compulsory feature to which you have expressed opposition, I suppose it is too early yet for you to indicate the extent to which this opposition is spread uniformly over different parts of the country?—A. That is right. I just said it was developing.

Q. Now, in your opinion, and I presume it cannot be more than an opinion at this time, if the result of the abandonment of the compulsory feature were to be an increase in the cost of the insurance do you still think that that is the way in which we should proceed?—A. As an individual, and as a personal opinion only, I would say yes.

Q. I take it you base your view on the fact that that would be the fairer way to go about it?—A. Yes.

Q. And not to enforce this insurance on all and collect payment from those who indicate they do not want insurance?—A. Yes, sir.

Mr. FLEMING: Thank you.

By Mr. Follwell:

Q. Mr. Gough, do I understand you correctly to say you represent only 9,000 of the total number of the civil servants?—A. Yes.

Q. And you have heard from only five branches?—A. That is right, sir.

Q. Do I understand you to say, therefore, that you have a check-off system in your organization?—A. Oh, yes.

Q. Is that revokable or irrevokable?—A. That is revokable.

Q. Do you think your members as a whole realize that this bill, as proposed, may be somewhat selective, but do you think they realize that everyone cannot have it?—A. As I have indicated to other members of the committee, sir, I sent out a factual report without any request for reaction because I said that it would be too late. So, at this particular time it is quite possible that there are a number of our councils, maybe the majority, who have not even met to consider the full implications of the bill.

Q. The point I am trying to make is that there is a clause that it is selective and you must be able to pass the medical examiner before you can be able to take advantage of it.

The CHAIRMAN: No. There is no medical examination required under this bill.

Mr. FOLLWELL: There has been under the present Act.

The CHAIRMAN: Yes, but not under this bill.

By Mr. Follwell:

Q. Mr. Gough, when were you first a member of the National Joint Council?—A. As an alternative member I have been a member since its formation in 1944.

Q. Then you would probably be familiar with the terms of the bill from the first discussion on it?—A. I said as an alternative member. The previous national secretary was the one that was in on these discussions in December.

Q. That was the point I was trying to clarify. When did you go to the National Council?—A. In March.

Q. Did the former secretary pass on to you any information?—A. Certain information, yes.

Q. Is it your opinion that it would be well to withhold this bill at the present time for further consideration?—A. I am afraid that I have not got enough information on that point to express an opinion, sir.

The CHAIRMAN: Mr. Gough, are you not prepared now to say to this committee, or to recommend to the committee, that the bill be either dealt with or held over for another session?

The WITNESS: I would say, sir, that it should be deferred.

By Mr. Noseworthy:

Q. Mr. Gough, I understand that your organization follows the organizational principles of the Canadian Congress of Labour?—A. That is right.

Q. Are you affiliated in any way?—A. The question of affiliation is presently subject to a referendum vote of our membership.

Q. Was your organization consulted in any way by the government before the National Joint Council met just recently?—A. Not recently, sir.

Q. Were you consulted regarding this bill?—A. Only through the National Joint Council.

Q. Only through the National Joint Council. Was the National Joint Council asked for an expression of opinion, or was the National Joint Council convened in order to be informed of what the government's policy was?—A. Since I did not actually sit in at the December meeting when the matter was discussed, I prefer that you discuss that with a member of the National Joint Council who was there at that time. Perhaps Mr. Whitehouse.

Q. I did not get your answer to the chairman's question. Would you recommend that this committee hold this bill for another session with the feeling that we could probably get a bill that would be more satisfactory if the civil servants themselves were given more time to consider the bill?—A. I would suggest that.

Q. Would you prefer that, or accept the bill as it is now?—A. I would suggest that it be held over.

Q. You would prefer to have it held over?—A. Yes, sir.

The CHAIRMAN: Would you recommend it be held over even if it was made elective?

The WITNESS: No, sir. If it is made elective I would say that the bill is satisfactory to this organization.

Mr. BENIDICKSON: Provided the same rates apply.

Mr. NOSEWORTHY: I have one more question. Are there any other features of the bill other than the elective principle to which your organization would take exception?

The WITNESS: No.

Mr. NOSEWORTHY: You are satisfied with every other section?

The WITNESS: Yes.

By Mr. McMillan:

Q. In the case it is elective the insurance would be subject to examination, would it not?

The CHAIRMAN: That is what Mr. Taylor said in his evidence.

Mr. McMILLAN: I would like to get that point cleared up.

Mr. MACDONNELL: I wanted to ask the witness this. I understood him to say that he would be satisfied with the bill if the compulsory feature were removed. Is that what you said:

The WITNESS: Yes.

Mr. MACDONNELL: Although you have only heard from 5 out of 80? You feel you can make that competent statement?

The WITNESS: Yes, sir. I think I could. As you will remember, sir, the Vancouver council is approximately one ninth of the membership.

Mr. FLEMING: I take it your answer is based on the view that if the whole scheme is made wholly optional on the part of every individual civil servant, if he does not like it he does not need to take it?

The WITNESS: Yes, sir.

The CHAIRMAN: Gentlemen, that concludes the hearing of the first witness. Now, we have Mr. Whitehouse of the Civil Service Federation of Canada. Mr. Whitehouse.

Mr. Fred Whitehouse, President, Civil Service Federation of Canada, called:

The WITNESS: Thank you, Mr. Chairman. Mr. Chairman and gentlemen of the committee, before I present our brief I understand that you would like to know something about our organization. The Civil Service Federation of Canada is a country-wide organization from St. John's, Newfoundland to the Pacific coast and stretching up into the Yukon Territory. We cover every department of the government and follow the trade union lines that the Trades and Labour Congress follow. Some of our affiliates are members of the T.L.C. Our membership today is approximately 62,000.

Mr. MACDONNELL: Could I ask one question. Could Mr. Whitehouse give us any indication as to whether there is any figure which might fairly be taken as his total target, in other words 62,000 out of how many?

The WITNESS: 120,000, sir, and our target is 120,000.

I would like to express our thanks, Mr. Chairman, for the opportunity of appearing before this committee. Like Mr. Gough, we are sorry that we

were not given more opportunity of discussing this bill among our affiliates. It was presented to us in a confidential manner at the National Joint Council. Naturally the federation is a member of the council. We were asked to treat it confidentially and we agreed to treat it confidentially.

Mr. JOHNSTON (*Bow River*): Who asked you to do that?

The WITNESS: The gentleman who presented it to the council at that time.

Mr. JOHNSTON (*Bow River*): Who was he?

The WITNESS: Mr. Taylor.

The CHAIRMAN: He gave evidence to that effect the first day.

The WITNESS: I am glad Mr. Taylor is here to nod his head. We have had many things presented to us of a confidential nature and we have kept that confidence. We do deplore the fact that we were not given an opportunity of presenting this to the people so as to get an intelligent reaction from them. You can appreciate that the small amount of time we have had since last Thursday to contact our people is not quite sufficient to get the viewpoint of the people we represent. However, I called a special meeting of the federation executive this week to go into the whole matter. My executive are 22 people who represent organizations of our federation right across the country, and are supposed to have knowledge of the feeling of their membership and their reaction to certain things. I would like to say, Mr. Chairman, that broadly speaking we approve this plan. We think it is a good step, certainly a step in the right direction, and certainly something which has been needed for many years particularly for the people who are young in the service and who may leave a widow with one, two or more children to raise, and have the right to educate them to make them good citizens of this country. We have always recognized and appreciated the fact that people with 8, 10, or 15 years service have not paid up sufficient superannuation benefits whereby their widow would have sufficient to raise the family decently. This is an amendment to the Superannuation Act which we find provides that and we are fully appreciative of the fact. As a member of the Superannuation Advisory Committee I have to say this, that this bill was never presented to the Superannuation Advisory Committee for study which perhaps should have been done. We have not had too much time to get the reaction of our people across the country, but from the reactions that we have received I would say that the biggest complaint comes from the single people, and particularly the female single people. I have this wire from Vancouver, addressed to the executive secretary, Canadian Taxation Division, Staff Association:

Reference your letter May 27 and attached official explanation of Bill 463 our association has been presented with a petition signed by 165 female employees of 177 contacted who vigorously protest compulsory aspect of group insurance scheme they demand their protest be considered June 2 meeting with banking and commerce committee please wire results collect.

In Ottawa, where my office is located, since the announcement of this I have literally been deluded with calls from the opposite sex protesting this bill. We have some sympathy with them because it is of a compulsory nature, and they naturally feel that they should not be compelled to take this insurance when they have no one to leave it to. I could tell you a story in lighter vein on that, but I will not. May I go through the brief now?

The CHAIRMAN: Yes.

The WITNESS: It is respectfully suggested that the following points in connection with the above-mentioned bill be given consideration and that the bill be amended to include the various recommendations made:

1. The various staff associations affiliated with the Civil Service Federation of Canada protest strongly the fact that they were not given an opportunity to study the plan before the bill was introduced.

2. The federation has no objection to the rates set.

3. Clarification is requested on the provision of the participation by the armed forces, as there appears to be discrimination between the armed forces and other civil servants as follows:

(a) According to May 1953 pay structure for armed services an ordinary seaman, private first class, corporal, sergeant and staff sergeant monthly allowance does not aggregate to an annual amount of \$3,000, yet this group of participants will benefit on the basis of \$3,000. For all other grades in the armed forces the amount of benefit has been set at \$5,000.

(b) Thousands of civil servants with dependents earn less than \$2,400, yet these participants can only benefit to the extent of their annual salary. A very great proportion of public servants are in the salary bracket from \$2,400 to \$4,200. They also are limited to a benefit based on their annual increment.

It is recommended that civil servants be given the option as to whether they contribute in accordance with the amount of their salary or up to \$3,000, say, to a grade 4 level; and on the amount of their salary or \$5,000 above that level.

4. For participants who leave the service on their own volition and without benefit of pension under the Public Service Superannuation Act an accelerated contribution is justified on the basis of additional administrative costs for collection of contribution, etc.

It is recommended that if increased premiums are required after normal retirement from the public service by the legislation now being considered, no accelerated rates be applied to people retiring from the service under the Act with pension benefit.

5. Participants in the plan who are on authorized leave without pay are primarily on loan to outside agencies to carry out a special project, attending university or attached to a recognized public service employee organization. By virtue of the fact that they are still considered eligible to contribute to the pension fund an accelerated rate of contribution to the benefit plan should not be imposed.

This group of participants are quite separate from participants who resigned from the service to seek outside employment. The public servant on leave without pay does not have the opportunity to participate in other employer group plans of this nature which the elected participant would have access to generally speaking in outside employment.

6. Regarding the provision of reducing the benefit after age 60, it is recommended that this clause be changed to provide that the benefit be only reduced for those actively at work when the participant is over the age of 65 from then on going down 20 per cent a year. The reducing factor applied to the participant while he is actively at work and efficiently carrying out his duties, could possibly be a constant reminder of his life expectancy and have a demoralizing effect.

Mr. MACDONNELL: You do not mind him being demoralized after 65?

The WITNESS: No.

7. It is recommended that in no case shall the death benefit be less than would have been paid under Section 56 of the Civil Service Act, which reads as follows:

When a person dies while in the civil service, after having been at least two years therein, an amount equal to two months of his salary shall be paid to his widow or to such person as the Treasury Board determines.

A clarification is required as to whether people still in the service after the age of 70 are going to be covered by this scheme or whether they will retain the two months' gratuity which they heretofore expected.

8. The outline of the government's proposals as presented to the committee and later tabled in confidence with the National Joint Council suggested that prevailing rate employees might be covered under the plan for an amount of insurance equal to the amount that is considered to be the salary for the purposes of the Public Service Superannuation Act.

Regarding seasonal employees it was also suggested that they should be covered by the plan both during the working season and during the off season.

The federation recommends that serious consideration be given to having these groups included as participants in the proposed plan. It would seem only fair to extend the provisions of the bill to these employees who are regularly on a seasonal basis employed from one year to another. If continued participation can be extended to employees who voluntarily sever their connection with the public service without benefit of an immediate pension under the Superannuation Act, it would seem reasonable that the seasonal employees and continuously employed part time workers should be eligible for the proposed benefits.

9. It is recommended that the compulsory feature of the Act in regard to employees having reached age 60 be changed to give them the right to elect for participation; also that the bill be retroactive to January 1st, 1953.

Because the recent amendments to the Superannuation Act went back to that date.

10. It is recommended that civil service insurance be carried on in conjunction with the proposed special group insurance for civil servants.

11. It is recommended that owing to the discontinuance of the two month salary payable on death to the widow, at least one-sixth of the payment be made available to the widow within three days of certification of the death.

We understand that under the Succession Duties Act a minimum of \$1,500 can be paid from the estate.

12. It is recommended that, provided it will not unduly increase the premium rate, single people be allowed to elect to insure for half their salary for those who are in the service; for those who come in later, that they be given the chance to elect as and when they come in, and only then.

13. Clarification is requested as to the exact definition of section 39 (1) (e) (i), as to whether this clause also includes those who have concluded their contributions to the Superannuation Fund.

It is inferred that they will be, but we would like to have it clearly spelled out.

All of this is respectfully submitted by the Civil Service Federation of Canada.

By Mr. Noseworthy:

Q. Mr. Whitehouse, I would like an explanation of some of those recommendations. Let us take No. 12. You suggest that single people be allowed to elect to insure for half their salary while in the service. You are suggesting that the bill should be made compulsory, but that single people be given the choice of electing for half their salary premiums?—A. Yes.

Q. Are you suggesting that they should be given the choice of taking nothing or taking half?—A. First of all, sir, we think that to make this plan successful and to retain the rates that have been set it has to be of a compulsory nature so that everyone will be covered. But we do feel that the single people that we talk about in this paragraph 12 perhaps should be allowed to take only half of whatever the salary might amount to.

The CHAIRMAN: Except that the qualification in the statement is: "provided it will not unduly increase the premium rate". I think you should make it clear that that was a concern.

The WITNESS: That is correct: provided it does not unduly increase the premium rate. I prefaced my remarks by saying that we believe in the compulsory clause, to keep the rate the way it should be.

By Mr. Noseworthy:

Q. On the question regarding the reduction of the benefit after age 60, I notice that your recommendation differs from the other recommendation made. Do you agree that there should be some reduction in benefit after 60, or after a man retires from the service?—A. The recommendation is, sir, that the reduction commence after age 65 rather than age 60 and that it be at 20 per cent rather than at 10 per cent after 65. That is, after 65 the reduction commence on a 20 per cent basis rather than at 60 on a 10 per cent basis.

Q. Your reason for that is that it will have a demoralizing effect if put into effect at age 60?—A. That is the way we feel about it, if the people are still employed.

Q. What is the attitude of your organization to the suggestion that employees over 60 or over 70 will still need protection such as this benefit provides, that this is primarily intended as a death benefit to cover the cost of the last illness and the undertaker's expenses, that these expenses do not end when a man or woman reaches 60 or 70, but there is still the necessity for them after that age?—A. I have expressed our views, sir. As to after age 60, to age 70, I have not any authority to express a view.

By Mr. Fraser (Peterborough):

Q. Mr. Noseworthy brought this up. The suggestion is that those who are single be allowed to take just half their salary at that rate. If single persons took it at half-rate and then got married, would they in your opinion have to go in at their full rate of salary?—A. That phase has not been discussed, so I am not in a position to answer that.

Q. You mentioned here seasonal employees. How do you think they should be included in this bill? I do not think they would be included otherwise.—A. We feel that they should be included. Although they are seasonal employees they are what you might call permanent employees in the sense that they are brought back every year to the particular work they perform.

Q. I mention it because there are so many employees on the Trent canal whose work is of a seasonal nature and I feel, too, that they should come into that scheme if at all possible, if they elect to. Some of them might not elect to come into it. In regard to (a) in paragraph 3, regarding the armed forces, you mention the rates and the amount that these men in the services would receive. Have you taken into consideration the fact that they receive food and board?—A. We mentioned monthly allowances which is plus their pay.

Q. Some, of course, do not get that?—A. Yes.

Mr. MONTEITH: Mr. Fraser asked a question about seasonal employees. Have you any idea how many seasonal and part-time employees there would be?

The WITNESS: I am sorry, sir, but I cannot answer that question. I could get the data for you.

Mr. K. W. TAYLOR (*Deputy Minister of Finance*): There are about 30,000 on the government payroll in a normal month who are not under the Superannuation Act and would not be under this Act. That includes a certain number of prevailing rates people as well as seasonal employees. The average number on the payroll fluctuates at around 100,000 in the non-military public service. Under the Superannuation Act the number that would come under this proposed addition to it is about 123,000, by subtracting one from the other. There are about 27,000 people who are employed from time to time, some of them continuously, in the public service, who are not under the Act.

Mr. MONTEITH: There would be about 127,000 who would be given the opportunity under this amendment?

Mr. TAYLOR: Prevailing rate and seasonal employees.

By Mr. Monteith:

Q. You have one member on the joint council, Mr. Whitehouse?—A. The Civil Service Federation itself has one member on the council.

Q. How many organizations across the country have you under your federation?—A. We have 14 national organizations which are organized from coast to coast, representing various government departments, and we have some 83 smaller affiliates who are organized locally.

Q. They are also coast to coast presumably?—A. No, sir, when they are coast to coast we form them into a national. These are groups in one city or another when we have not the counterparts all over the country.

Q. When you say "local", you mean in Ottawa?—A. No, in respect of the city. I am speaking of the whole country.

Q. I do not quite get that.—A. Providing there is a group of people in Toronto, for example, and we have not the counterparts all over the country whereby they can form a national, but they want to become organized as a federation, we form an organization of those in Toronto and they become affiliated with the Civil Service Federation.

Q. If there does happen to be one of those 14 national organizations, they join?—A. That is correct. If I can take the Post Office Department, the postal employees in Toronto are part of their national organization from coast to coast, whether they are from Winnipeg, Vancouver or any part of the country.

Q. You have not, I gather, had an opportunity to contact these 14 national and 83 local organizations, or have you made an attempt to do so?—A. We have. As I pointed out in my opening remarks, my executive is comprised of 22 people, who represent those various nationals and other groups across the country. I had a special meeting this week to get their views on it.

Q. Would you think that they had time to contact their organizations?—A. We would naturally like to have more time. As I stated, it is impossible to get an intelligent reaction from our people in the short space of time that we have had, and the only authoritative opinion we have had is from the people who are full-time in Ottawa, representing their organizations across the country, which we have mentioned in this brief.

Q. You mentioned that 165 out of 177 single women employees contacted in Vancouver have been, shall we say, opposed to the compulsory angle. Were the majority of your phone calls in the same category?—A. Definitely, except that some got very abusive.

Q. Your recommendation in paragraph 3 says:

It is recommended that civil servants be given the option as to whether they contribute in accordance with the amount of their salary or up to \$3,000, say, to a grade 4 level; and on the amount of their salary or \$5,000 above that level.

Is your recommendation based on the thinking that you should more or less be in the same position as the armed services?—A. Yes, sir, and the reason we recommend more of an optional basis is that the present plan, as you are aware, allows insurance up to the amount of the salary we are receiving. If you are receiving \$2,400 a year, that is the amount of insurance you get under this plan. We would like to have an option so that everyone who would like to take up to \$3,000 would be able to take it.

Q. Just one more question. It is recommended that civil service insurance be carried on in conjunction with the proposed special group insurance for civil servants, under paragraph 10. In other words, you would recommend that the present insurance still be available to employees if they so wish?—A. Yes, sir.

By Mr. Philpott:

Q. Mr. Whitehouse, in regard to this poll from the people in Vancouver, you say that there were 165. What were the figures again?—A. 165 out of 177.

Q. What were the others? Were they not able to reach them, or did they vote on the other side?—A. The wire does not indicate that.

Q. What percentage of your 62,000 members are maiden ladies, have you any idea?—A. I have not those figures.

Q. Would you care to express an opinion on this? Do you think that a good deal of the resentment of these maiden ladies at the moment is because of the fact that they did not have notice of this particular scheme and it was more or less sprung on them and the automatic reaction is resentment before they know all the facts? For instance, from that same city of Vancouver one of the ladies says: "I suppose the government sees the opportunity in such a situation to get a bigger haul. This is getting more of a dictatorship every day." She thinks the government is going to make money on this scheme.

Mr. FLEMING: A young lady of some discernment.

Mr. PHILPOTT: In your line of experience with the fairer sex, would you say that all ladies love a bargain, that all women are born bargain hunters, and when the news finally gets around among all these maiden ladies, and after they are properly educated, that this new scheme has enough good in it and they are going to get a bargain on the insurance and get insurance at forty cents a thousand which would normally be at least 80 or 90 cents a thousand, do you think you might get a very different picture about a month or two months from now?

Mr. MACDONNELL: Are those figures—

The CHAIRMAN: The question is Mr. Philpott's.

Mr. MACDONNELL: Mr. Philpott is introducing himself as a witness.

The CHAIRMAN: Mr. Philpott is asking a question.

Mr. MACDONNELL: A loaded one.

The CHAIRMAN: Based on experience and knowledge.

The WITNESS: I would like Mr. Philpott to qualify his remark first about my long experience with the opposite sex. As to the female being a bargain hunter, I would say that the average female is and perhaps it is a good thing. I would say this too, they may have had a different outlook on this scheme if there had been some time to study it. I can only speak from the experience I have had in the past few days from the calls and letters I have received that they resent the compulsory part of it, and as one put it to me, they do not want to pay for something when they have no one to leave it to. I was able to persuade some of them, from the christian outlook, that perhaps this was a good thing and they have changed their mind. One was particularly adamant, and I said perhaps we could in the next year or so provide for her to take it with her.

I think that what we are asking, sir, is fair. That we do appreciate that these single people have a legitimate complaint and that they should be given half the amount of the insurance based on what the salary might amount to.

By Mr. Pallett:

Q. In paragraph 2, you state: "The federation has no objection to the rates set." Before reaching this conclusion did the federation consult any insurance companies?—A. Not directly on this plan, sir, but I can inform you that we have for many years now studied group life insurance and not only the federation itself, but many of its affiliates, particularly national organizations, and many executives are comprised of people who have had a lot of experience in this, and that is the conclusion we came to, that the rate is very reasonable and we would like to keep it.

Q. You said that there are 22 people on your executive?—A. Yes.

Q. Married?—A. With one exception.

Q. What is the average age?—A. Of the men?

Q. Yes.—A. I would say 50.

Q. So it would be a satisfactory rate for that age group?

The CHAIRMAN: No, no.

The WITNESS: I resent that, Mr. Chairman.

The CHAIRMAN: The observation was that it was a satisfactory rate for that age group? Have you any observation on that point?

The WITNESS: I can only repeat what I said. We had a lot of experience in group life insurance and naturally it was not confined to people aged 50. It was spread over from people from 20 up to 70. From the experience we have had we feel that the rate in this plan is very fair and reasonable.

By Mr. Pallett:

Q. From your experience can you tell me what the overage length of employment is within the civil service?—A. I would say 30 years.

Q. And the age they come into the service?—A. That varies of course, sir. In years when we are not at war, they come in earlier. In years when we are at war and the recruitment problem is there; then we take them in much older than in normal times.

Q. Under today's conditions.—A. The eligibility list that the Civil Service Commission is publishing today would indicate we could get people into the service around 18 to 21.

Q. Would that be the average age of people coming in?—A. In normal times.

Q. And the average length of service is 30 years?—A. That is a rough estimate. I have not had an opportunity to study it. I am speaking of people I know in the service. Some may go 40 or 42 years.

Q. You have had telegrams, you mentioned. Have you had any telegrams from your units or locals in favour of this scheme?—A. Yes, sir.

Q. Have you them with you today?—A. No, I have not.

By Mr. Johnston (Bow River):

Q. Mr. Whitehouse, what portion of your membership would you say is in agreement with this bill?—A. I cannot answer that, sir, because you will appreciate that we have not had the time.

Q. I think you did say that your organization was in favour of it under certain modifications?—A. I am speaking on the authority of the executive officers who represent the people across the country.

Q. You have 62,000 members in your organization?—A. Yes, sir.

Q. And some of those are also members of the Amalgamated Civil Servants?—A. No, sir.

Q. I thought you said that some of those were of the same organization as the organization of which Mr. Gough was speaking —A. No, sir.

Q. I am sorry. I thought you did. I was just reminded of the fact that he said his organization was against this.—A. We are two distinct separate organizations.

Q. There are no members of Mr. Gough's organization in yours?

Mr. PHILPOTT: Mr. Gough did not say that.

The CHAIRMAN: He was in favour of the principle of the bill which he said was widely accepted but opposed to the compulsory aspect.

By Mr. Johnston (Bow River):

Q. And I take it Mr. Whitehouse is in favour of the bill as it stands with one or two exceptions respecting the compulsory feature?—A. Yes.

Q. Generally speaking, Mr. Whitehouse, your organization is in favour of the bill as it stands?—A. Yes, with the change we recommended.

Q. What led to my question was I understood part of your membership was also part of the other organization, but you say it is not?—A. Definitely.

Mr. JOHNSTON (*Bow River*): Those are all the questions I have, Mr. Chairman.

By Mr. Macdonnell:

Q. You spoke about your contact with the 22 associate members. But, in view of the short notice of time you had it was impossible to get an intelligent reaction from your members. I think those were your words. Nevertheless you expressed some pretty confident opinions. Would you be happier if you had had more time to get in touch with your large membership and feel that you had a cross section of their views. You said it was impossible to get an intelligent reaction in the time.—A. May I qualify that, by saying, an intelligent reaction from all our people across the country. I have received an intelligent reaction from members of my executive who spoke from the knowledge they have of their people. Naturally we would like more time to consider this scheme. I would qualify that by saying that if we can get the changes we have recommended in the Act as contained in the brief that I feel fairly sure our people would be satisfied, and I would like to say I do not wish to hold up this bill unduly.

Q. At the present time are your executive members seeking to obtain further information from your members? Are they pursuing the matter?—A. Last Thursday morning they all sent out word to the various executives—and when I say executives I mean that in Ottawa we have a full time secretary and we have our national president and members of our national executive scattered all over the country from coast to coast—and they did communicate with the members of our executive asking them to give their views immediately by whatever means they could get them to us fastest. That was my understanding, that the executives of all our nationals were contacted.

Q. What would have been your means of contact if you had had plenty of time?—A. It would be exactly the same as we did last Thursday morning to our national offices, that is, we would have to elaborate on that and each national organization would have to send the same letter to each branch across the country. That is the only difference and we would be able to contact all branches of our various organizations, instead of just the national offices of the organizations affiliated with the federation.

Q. What you gave was that it was almost unanimous. Could you hazard a guess of how many of your 62,000 members have been personally contacted in the last five or six days?—A. No, I could not, sir.

Q. Would you be happier if you still had further time to contact them and would you feel more certain than you do now when you say that it is impossible to get an intelligent reaction, and you qualified that, but those were your first words. Would you prefer to have further time to establish further contact?—A. Yes, I would like more time.

Mr. McMILLAN: How much time?

Mr. FRASER (*Peterborough*): How much time?

Mr. FOLLWELL: I have one question.

The CHAIRMAN: Mr. Fleming is next on the list.

Mr. FOLLWELL: My question is on that point—I just wanted to ask Mr. Whitehouse whether his national executive feels that this bill should be dealt with before the committee or whether it should be deferred.

The WITNESS: I have not any instructions on that, sir.

By Mr. Fleming:

Q. Mr. Whitehouse, I take it that you and your fellow members on the executive regard this matter as one of very considerable importance?—A. Yes, sir.

Q. And it is a question that you have been concerned with, as you indicated by your studies of the matter of group insurance, for some time?—A. Yes, sir.

Q. It is not a problem that has arisen suddenly?—A. No.

Q. Is it fair to say that in the view of yourself and your executive—because I understand that that is all you are purporting to speak for here this morning—this is too important a matter to admit of precipitate decisions and actions without due consideration?—A. I would say.

Q. It is quite a responsibility to ask yourself and 22 colleagues on an executive to speak for the minds of 62,000 people without an effective consultation with them?—A. Well, I prefaced my remarks by saying that we deplore the fact that we had not had time to consider this.

Q. I wanted to relate that to the fact that it is inviting 23 persons to assume a great deal of responsibility if they are being called upon now to speak for the minds of 62,000 people who have not been consulted?—A. Yes, that is right.

Q. If time were given, is it possible for you to carry out effective consultation with your 14 national organizations and their local branches and the 83 smaller affiliates who are organized locally?—A. Naturally, it would give us a better picture of the whole thing, but we have our conventions regularly and group life insurance has been discussed at all our conventions, and I think we know fairly well the reactions of all our people on that question. To me personally, and I feel that my executives feel the same way about it too, the big objection to this plan is the compulsory nature for the female single people, and that is why we have asked that something be done about that. I would go a little further and say that if we were given a little more time to put the questions across the country it would wind up that way, that that would be the main objection to the whole plan.

Q. That is the impression that you have at this point?—A. From the past experience with group life insurance and knowing the psychology of our people.

Q. Thinking of the rank-and-file of your 62,000 members, is it not fair, in your opinion, that in a matter of such importance as this there should be effective consultation with them, particularly if there are going to be any compulsory features to the plan?—A. I stated that at the outset, sir.

Q. Now, you and your executive have submitted in your memorandum a number of recommendations for changes in the present proposal. You have in your memorandum, I think, 13 paragraphs, and numbers 3 to 13, inclusive, contain recommendations for alterations in the proposed scheme?—A. Yes.

Q. That is a fact, is it not?—A. Yes.

Q. Some of them contain more than one, and some of them, I think it fair to say, are really quite far-reaching proposals?—A. Yes.

Q. Now, these proposals, as I understand it, have come out of one meeting of your executive held since the bill was introduced in the House?—

A. That is correct.

Q. In your opinion, is it not likely that if even the executive had more time to consider this scheme, even apart from the question of consultation with the local organizations and the national organizations, that there might be other recommendations forthcoming as well, quite apart from the objection to the compulsory nature of the scheme?—A. That is quite possible.

Q. It strikes me from the study that it is evident the memorandum shows that you have many individual proposals that you regard as improvements for the present scheme, quite apart from any proposals to meet objections to the compulsory feature?—A. That is correct.

MR. BENIDICKSON: Some are not inconsistent with the bill. Some raise questions as to the intent of the bill. For instance, I think the answers to Nos. 7 and 13 would be "Yes".

MR. FLEMING: That may be a matter of argument. We will have to leave that to the language of the bill to determine, unless there are amendments introduced to meet it.

Q. But I take it, Mr. Whitehouse, that your executive sat down at this meeting, since the bill was introduced in the House, looked it over and brought forward what they regard as recommendations for improvement in the bill?—

A. Yes, except this, sir, that I stated that it was given to us in a confidential manner, and the confidence was respected; but, as has been our experience in many other suggested improvements in legislation for civil servants, the press seemed to get this information irrespective of the fact that it was confidential, and this was published two months ahead of time, which is practically identical with the bill that has come out. I have been travelling over the country for the past few months and have been faced with questions in Winnipeg arising out of this bill. They obtained information from the press in this instance. They knew all about it and had studied it and were not greatly surprised by what came out in this bill that we sent to them last Thursday. Unofficially we knew from our people their views, and unofficially, shall I say, they have been made aware of the contents of this bill, not through the people who promised to keep it confidential but through other sources, and the press in particular. So they were not entirely ignorant of what this bill contained in the past few months.

Q. You make that comment with reference to your executive members?—A. Yes.

Q. This meeting was a meeting since last week when this bill was introduced in the House?—A. Yes, that is right.

Q. With respect to the confidence that was imposed on the National Joint Council, that was the first opportunity?—A. When we had an opportunity to discuss it officially; but it should be also remembered that it is not a staff-side request. It is legislation brought forward by the government itself. So it is not something that we went after or asked for. We were told last October that the government proposed to do this. That was the first intimation we had of it, and it was given to us in a confidential vein.

Q. Have you any opinion to express on behalf of your executive as to the feasibility of the inclusion of the armed forces in the same scheme as civilian employees of government? Have you had time to give that question the study that you would wish?—A. No, to be quite frank, we have not studied that except the aspect of their being allowed \$3,000 and \$5,000, and the others just the salary.

Q. If there were more time afforded for consultation with your members and for study on the part of your executive at various levels, is that one of the subjects that in your opinion would be given further study?—A. I do not think so, sir. We are only looking after the interests of the people we represent. We have nothing to do with the armed forces.

Q. But I am directing my questions, Mr. Whitehouse, rather to whether you are concerned over the inclusion in a scheme of, on the one hand, the civilian employees and, on the other hand, the members of the armed forces, as to whether the result is the best and most workable scheme?—A. My answer is still the same, sir. We have nothing to do whatever with the armed forces, and if we can get something that is satisfactory to us that is our job.

Mr. BENIDICKSON: There are two accounts referred to in the bill.

The CHAIRMAN: What Mr. Whitehouse is saying in effect is that they do not want to deprive anyone of anything. They are looking out for themselves and they hope that everyone else obtains a good deal.

Mr. APPLEWHAITE: In your extensive discussions and investigations of group life insurance, what was the total cost per month per thousand of the cheapest policy offered to the civil service by any life insurance company?

The WITNESS: You are asking me a question I did not come here prepared to answer. I would have to refer to my files to get an answer to that. I know that is considerably more.

Mr. APPLEWHAITE: Is this witness appearing this afternoon?

The CHAIRMAN: This witness has an engagement in Toronto. I do not think we need to bring him back. Thank you very much, Mr. Whitehouse.

By Mr. Fraser (Peterborough):

Q. Just one question. In your brief you say that you would like the bill to be retroactive to January 1, 1953. I would like to ask you why you have that in.—A. Because of the recent amendment to the Superannuation Act, which is retroactive to January 1, 1953.

Q. You want this to correspond with it?—A. Yes.

The CHAIRMAN: The afternoon meeting is at 2.30, not at 3.30.

Mr. MACDONNELL: I take back every nice thing I said about you, if you bring us here from 2.30 until 6.

The CHAIRMAN: We have to get this done.

Mr. MACDONNELL: I want to come back to the question of servicemen's insurance.

The CHAIRMAN: A service spokesman will be here this afternoon.

Mr. MACDONNELL: To ask us to deal with this question affecting the servicemen without having any contact except with senior officers, is asking something that should not be none.

The CHAIRMAN: The service people will have a spokesman available for the committee.

Adjourned till 2.30, gentlemen.

AFTERNOON SESSION

2.30 p.m.

The CHAIRMAN: Gentlemen, Mr. James Lowther will be speaking on behalf of the Professional Institute of the Public Service of Canada.

Mr. Lowther.

Mr. James Lowther, Professional Institute of the Public Service of Canada, called:

The WITNESS: Mr. Chairman and members of the committee at the outset I would like to express, on behalf of the Professional Institute of the Public Service of Canada, our appreciation of the privilege of appearing before your committee and the opportunity afforded us to express our views on this piece of legislation before you.

Before proceeding to present the submission which we have prepared and which I am authorized and directed to present to you today, possibly I might endeavour to answer, as far as I am able to do so, the question asked by one of your members at this morning's session.

The Professional Institute of the Public Service of Canada is an organization comprising some 3,179 members, I am informed, as of June 1, 1954. This organization is made up of some 40 professional groups, and we have within that organization some 23 branches which are spread throughout the country from the east to the west coast. Approximately 15 per cent of our members are female members. The members of the professional institute are engaged in professional work in the public service, those referred to as the professional, scientific and technical employees of the government.

By Mr. Macdonnell:

Q. I understood this morning we were informed that each organization stands on its own feet and would not be overlapping?—A. I am not prepared to say whether some of our members may also belong to some other organization. There may be some who would belong, for instance, to the Civil Service Association of Ottawa. But, I may say that we have no affiliate group, nor are there any other organizations with which we are affiliated, nor are we affiliated with any other staff organization.

Now, if I may, I would like to proceed with the presentation of our brief.

The Professional Institute of the Public Service of Canada has on various occasions proposed that the existing scheme for civil service insurance should be expanded by making it available to all civil servants, by making provision for term insurance in addition to whole life insurance, and by raising the limit from \$10,000 to \$25,000. It has not, however, proposed the abolition of provisions for whole life insurance, the abolition of the voluntary principle, nor the suspension of section 56 of the Civil Service Act, which provides for the payment of two months' salary on death.

Insofar as the proposed scheme makes civil service life insurance available to all, rather than to the minority who were previously eligible, the professional institute approves the measure. It also approves of the principle of making term insurance available as a supplement to the benefits payable to dependents under the Public Service Superannuation Act.

The institute wishes to emphasize, however, that any benefits derived by civil servants from this scheme over and above those already received will be paid for by the civil servants themselves. The low rates are

achieved by compulsion, which will extend the scheme to a very large number of participants. Furthermore, all civil servants over 60 years old or earning over \$5,000 per year will, in effect, finance out of their own pockets a portion of the provision for death benefits at present borne by the government under the terms of the Civil Service Act, section 56.

The professional institute regrets that the public service was not asked beforehand for an expression of the opinion of a good cross-section of all units on the radical departures involved in this plan as the armed forces were. In effect the preliminary negotiations for this scheme took the form of consultation with members of the National Joint Council and one of its sub-committees as individuals only, not as representatives of their organizations. Consequently, the view of the institute is that the public service was not given an opportunity to consider the proposed plan before Tuesday, 25 May 1954.

An outstanding feature of the present system of death benefits for civil servants is the speed with which payment is made of two months' salary at death, under the provisions of the Civil Service Act, section 56. The institute regards it as a matter of *primary importance* that this speed should be maintained. Anything which slowed down payment would be undesirable, particularly in view of the fact that Bill 463 is, in the words of the Minister of Finance, "primarily designed to provide funds which will be readily available to pay the inevitable expenses arising out of or consequential upon the last illness and death of a contributor." (*Hansard*, 26 May 1954, p. 5104). The bill provides (section 44(2)) that the benefit shall be paid in a lump sum, subject to possible deductions for certain expenses incurred on behalf of the deceased. In the case of payments made by commercial insurance companies, the Succession Duties Act provides that only \$1,500 can be released from an insurance policy before certain formalities have been completed.

At this point, Mr. Chairman, with your permission, I should like to add a slight amplification of that statement. This reference is relevant to our objection to the payment of a lump sum because, if we were to press for immediate payment of death benefit under the present terms of the bill, we would be asking for the immediate payment of more than \$1,500 in most cases, thus putting ourselves in a more favoured position than the general public which would be wrong. Therefore, we feel that it is better to combine our request for the continuation of immediate payment with a request that the bill be amended in such a way that this immediate payment may consist of two months' salary, as is the current practice. I added that statement to amplify the reference to the provisions of the Succession Duties Act.

The institute is of the opinion that the speed with which death benefits are now paid under the Civil Service Act, section 56, should not be reduced by virtue of the fact that the new benefit must be paid in a lump sum, and requests that, if necessary to achieve this result, the bill be amended to provide for the immediate payment of a portion of the benefit equal to two months' salary. In any case, the institute requests that, if there is no spouse, provision should be made for immediate payment of a portion of the benefit equal to two months' salary of the deceased to "such person as the Treasury Board determines," so as to maintain the present speed with which support is given to a dependent other than a spouse, under the present provisions of the Civil Service Act, section 56.

The institute regards it as a matter of prime importance that, in addition to any change which may be made in the bill, administrative procedures under the new scheme should be such that at least two

months' salary reaches the spouse within 48 hours of the death of a participant, and that any regulations respecting proof of age and death should be framed with this in mind.

The compulsory nature of the proposed scheme is objected to by a number of individual civil servants. It is felt that they have certain rights as individuals, irrespective of what the majority view might be. The large number of public servants who will benefit from the scheme are not entitled to enjoy unusually low premium rates if these rates are based on compulsion applied to individuals who would prefer not to be insured.

It is, therefore, felt that those already in the civil service should be given an opportunity to remain out of the scheme, thus staying under the Civil Service Act, Section 56. It is recognized that such a decision should be irrevocable and that there should only be a limited time within which a civil servant could exercise it. There would be no objection to making the scheme compulsory for new entrants, since they would know that it was one of the conditions of service before deciding to apply for a position.

One group at present in the service, which appears to have strong objections to the compulsory nature of the scheme, consists of unmarried women. Where they have no dependents, and have already provided for death benefits, they have no need for this insurance. On marriage, responsibility for their financial maintenance will fall on their husbands. Unmarried men are a similar group, although here a subsequent marriage will increase financial responsibilities, and it is probable that many bachelors would probably choose to be in the scheme if given the freedom of choice which ought to be available to every civil servant.

Possibly with your permission I might refer you to one letter which I have received from one of our professional groups relating to this particular problem. It is from the chairman of the Librarians' Group of the Institute which is composed mainly of female employees, and this letter reads as follows: "I have been instructed by the executive of the Librarians' Group of the Professional Institute to write to you concerning the insurance legislation now under consideration. This group protests the compulsory condition of the legislation insofar as it affects personnel in the public service with no dependents." I place that before the committee as an indication of the feeling of a representative group of single female employees.

One feature which would improve the scheme would be the addition of a waiver of premiums on the total disablement of the participant. Such a provision is available at extra cost for most commercial policies. The compulsory nature of this scheme will probably cause many civil servants to reduce their coverage with commercial firms, and thus reduce the likelihood that they will carry this sort of protection. Thus, if the bill becomes law as it stands, a person who has to leave the civil service on account of total disability will be less likely to be covered by paid-up life insurance after that event than he would be at present. In his total disability, he might well be unable to maintain even the low contributions for participation in the scheme.

The institute, therefore, recommends that provision for the waiving of premiums on total disability of the participant should be included in the proposed scheme. This could be brought about by amending section 40 to include a provision that a person who ceased to be employed in the public service on account of total disability should automatically continue to be a participant, and by amending section 42 to provide that the contribution of a totally disabled participant should be nil. The latter provision would also cover the case of the elective participant who became totally disabled after leaving the public service.

The Act already provides that the definition of a widow may include the common-law wife and exclude, under certain circumstances, the wife who has left her husband. The Institute recommends that the bill be amended to provide, for the purposes of this scheme, for the definition of a widower in such a way as to include the common-law husband and exclude the husband who has deserted his wife.

The bill does not specifically mention whether a person employed in the public service after retirement from the regular forces can be simultaneously a "regular forces participant" by election and a "public service participant" by virtue of his current employment. The institute requests that this point be clarified.

If I might add two further points, Mr. Chairman, the first refers to this statement which I have just read. The second question is whether the double cover is intended under the bill which would arise in the case of a civil servant who retired, or was granted leave, in order to enter the armed forces. We are not clear on the intention with respect to the contingency which might arise resulting from a transfer from the forces to the public service or vice versa.

The last point I should like to refer to the committee is that it has been suggested to us that, because of the mandatory provisions with respect to the payment of the death benefit under the proposed Act, that this might raise a problem as far as French Canadians are concerned who might be obliged to enter into a marriage contract. I am not prepared to speak on the implications of that but I pass it on as a point which might be worthy of consideration.

Thank you very much.

By Mr. Macdonnell:

Q. Mr. Lowther, I am interested in the first paragraph which you read. First of all I want to ask you this. You have something in the neighbourhood of 3,200 members?—A. Yes.

Q. Scattered across the country?—A. Yes.

Q. What contact have you been able to have with them since this committee met last?—A. We have had none, sir.

Q. Well then, are you making representation for your committee, or is this really just your view of the situation as you see it?—A. This brief, as I believe I indicated at the outset of my remarks, is a brief which I submit on behalf of the Professional Institute upon the instructions of the Board of Directors.

Q. And how many would that be?—A. The board consist of approximately 12 or 13 of our members.

Q. And they are scattered throughout Canada?—A. No, they are all here in Ottawa.

Q. And you had a meeting?—A. We had a meeting of the Board at which this was discussed, last Thursday, to be exact; and as a result of that meeting, a special sub-committee of the board was set up to be responsible for the preparation of this brief.

Q. Are you doing anything in the matter of making further contact with your members?—A. Not at the moment, sir, no.

Q. You did raise a considerable number of questions here and I wondered if you were going to submit those questions for the opinion of your members?—A. We will certainly submit them to our members; as a matter of fact, they will be informed through normal channels of the position which the institute takes with respect to this legislation by sending them copies of the submission which we have made to you; and they will be asked to let us have their views on it. But there was no time to do it before the opportunity to appear before this committee arose.

Q. You regard this as a matter of very considerable importance?—A. I do.

Q. And you would welcome an opportunity, if further time was given, to communicate with your members?—A. I would.

Q. In the first paragraph of your submission you refer to proposals which have been made, I take it, which were mainly based on the explanation and provisions of the present civil service insurance Act?—A. That is right.

Q. And as matters stand, I understand that Act is going to be brought to an end?—A. That is my understanding too.

Q. And that is something which you regret?—A. Yes.

Q. You have set out several alternatives here. What is the limit under that Act?—A. \$10,000 I believe under the present legislation.

Q. And you suggest that it should be raised to \$25,000?—A. Perhaps I might be permitted to make a statement to avoid any misunderstanding. That is not a suggestion of this brief. That first paragraph merely clarifies the position of the Institute with respect to representations which may have been made in the past, pertaining to life insurance available under legislation for civil servants.

Q. You regret, at the end of the first page, "that the public service was not asked beforehand for an expression of the opinion of a good cross-section of all units. . . ." Now we were told this morning about the Joint Council proceedings. Did you have a member on that council?—A. Yes.

Q. But he was inhibited just as the others were from carrying those consultations further?—A. That is right.

Q. Were you the member?—A. No, I was not.

Q. You make various suggestions here and I do not think there is any need of going into them in detail; but you mention the compulsory nature of the scheme and you mention that there are certain people who feel themselves particularly discriminated against. I spoke to one young woman who was concerned and she protested from this point of view; she said that she receives less than a man because she is regarded as not likely to be permanent; yet she is forced into the schemes upon the assumption that she is permanent, because she has either to carry on her subscription throughout or lose what she had put in. Have you any comment to make on that?—A. I am not sure that I understand the position as stated. I am not aware of any circumstances where a female employee receives less than a male, merely because of not having the advantage of a permanent status.

Q. She told me that as women were not considered likely to stay as long as men, they therefore were regarded as less satisfactory employees. But if you are not aware of it I shall not proceed further along that line. However, you do stress the opposition that was stressed before, namely the opposition of unmarried women and you make certain recommendations. You said a moment ago, I think, that you would welcome it, if it were possible, to consider this matter further and to get in touch with your members so as to ascertain more definitely their views. You said that, did you not?—A. Yes, that is true. We would welcome the opportunity for further consideration to be given to this measure.

The CHAIRMAN: Are there any more questions, Mr. Pallett?

By Mr. Pallett:

Q. On the first page you say that the low rates are achieved by compulsion. Have you established in your professional institute any comparison of rates that would be achieved with a 75 per cent participation, or something of that kind?—A. We have not, no. We have not established any comparative rates. We have not had an opportunity to look into the comparability of rates that might be available in private industry under a similar type of scheme.

Q. You have not had an opportunity to compare rates which would be available from private sources?—A. No, sir.

By the Chairman:

Q. You heard Mr. Whitehouse tell us that he had. Do you disagree with his evidence?—A. In what respect?

Q. In respect to the rates. He said that his organization, and he himself particularly, had made a comprehensive study of rates; you heard what he said. Have you any reason to disagree with him?—A. Not having any idea of what comparable rates there may be under private insurance policies, I am not in a position either to agree or to disagree with Mr. Whitehouse.

Mr. MACDONNELL: You are not so bold as some other people.

Mr. FLEMING: We were not told what was involved in other schemes. However, we will have Mr. MacGregor here and he can give us authentic information.

The CHAIRMAN: Are there any further questions?

By Mr. Pallett:

Q. I take it that your group is made up of accountants, lawyers and so on? —A. We have a variety of professional civil servants such as engineers, chemists, accountants, lawyers, nurses, librarians, agronomists, and so forth.

Q. And the larger percentage of that group would be men; is that not correct?—A. I think I indicated at the outset that about 15 per cent of our membership would be female, which would mean that 85 per cent would be male.

Q. And their average age would be perhaps a little higher than the average age of civil servants generally; would that not be correct?—A. Again, not having any prior information on this point I would hesitate to say yes or no. It might be a slightly higher average age.

Q. And perhaps that group would benefit from this particular scheme from being in that position?

The CHAIRMAN: He does not understand your question, Mr. Pallett.

By Mr. Pallett:

Q. Your group consists mainly of men of mature age, and it would be one of the groups which would be in a favourable position under this scheme?—A. I would not suggest that they are in any more favourite position than any other civil servants. I think the main group which stands to benefit are those with less than two years' service. We say that whatever benefits are derived from this scheme, they are being paid for by the civil servants themselves. And so far as our membership may have a large proportion of its members who are earning over \$5,000, they probably are deriving less benefit, proportionately, than the rest of the civil service.

The CHAIRMAN: Is there not a government contribution to this scheme?

The WITNESS: There is, yes, but it is no more than they are now paying. We make the point that in so far as those over 60, and those earning over \$5,000 are concerned, the government's contribution will be less than what it is now.

Mr. HELLYER: Would you mind elaborating on that point, if you please?

The WITNESS: If I may use an illustration of a person whose salary is \$3,000 a year at the present time; supposing that person should die after having worked for 2 years. The government would pay 2 months salary which would be \$500; that would be $\frac{1}{6}$ of \$3,000.

But let us say he died at the age of 61. If that person was earning \$3,000, they would now get only \$2,700 and the government's contribution in respect of the death benefit then paid out on behalf of that employee is, of course, only $\frac{1}{6}$ of \$2,700.

The CHAIRMAN: Now, Mr. Follwell.

By Mr. Follwell:

Q. I think the witness has said that his organization has 3,179 members. Could you tell the committee how many of those members at the present time are participants in the life-insurance scheme that is available to the civil service.—A. I would not have any idea.

Q. I understood it has not been used very extensively.—A. I think evidence was given that out of some 120,000 who have the benefit under this scheme, there are only 13,000 policies taken out under the present legislation.

Q. How many of your group are taking advantage of this scheme?—A. I could not tell you.

Q. Would you agree that in your brief you seem to be very clear that you are not in agreement with the bill as it is now presented?—A. I think our position has been clearly stated in our brief. We approve of some of the provisions of the present legislation. For instance, I say in paragraph 2:

"In so far as the proposed scheme makes civil service life insurance available to all rather than to the minority..." we approve of it. But there are other aspects of the scheme, particularly the compulsory aspects of it, which at the moment we regard as being unsatisfactory.

Q. Would you agree that your organization concurs with only a very small proportion of the bill as presented?—A. Yes.

Q. Would you agree that you should have more time to study the bill?—A. I think I have already indicated that we would welcome an opportunity for further instructions.

Q. Is it the opinion of your group that it would be well to defer this bill?—A. Speaking with respect to the compulsory aspects of it, I would say yes.

The CHAIRMAN: Now, Mr. McMillan.

By Mr. McMillan:

Q. How much time would you require?—A. That is probably a difficult question to answer. But since you are asking for information I will take the onus of suggesting that we could not possibly contact our 23 branches and 40 groups, provide them with full information as to the full implications of the proposed legislation, get their views back, and attempt to consolidate those views in much less than three weeks to a month.

The CHAIRMAN: Now, Mr. Fleming.

By Mr. Fleming:

Q. I take it you feel that this matter is of such importance that you and your members should have an opportunity for full consultation and that it would take at least three weeks?—A. Yes, sir.

Q. And you attach such importance to this scheme that it should not be pushed precipately, particularly in the light of the compulsory feature?—A. We regard that aspect of it as particularly important.

Q. Indeed, may we say that in the light of the comments you have made about the compulsory feature of the scheme on page 3 of your brief that to you it is the fundamental feature of the whole scheme?—A. Yes, sir.

Q. And that taking into account all the factors, it is unfair to impose a compulsory scheme willy-nilly upon all employees of the government?—A. We do not feel, as I have suggested in the brief, that a large majority should benefit, or should have the benefit of low rates, if this involves compulsion which is the only way apparently the low rates as suggested could have been achieved under the scheme.

Q. And if the compulsory feature were to be withdrawn, the objection to your not having an opportunity for consultation would not be so serious because it would be up to each member to decide for himself whether or not he wished to come in on the scheme on its merits, as it might appeal to him.—A. That is quite right.

Q. And about the membership of your institute, are any of your members drawn from the professional staff of any of the crown corporations?—A. It depends on what you mean by "crown corporations". For instance, one of our groups is known as the National Research Council group. If you think of the National Research Council as being a crown corporation, then my answer would be yes. But if you think of, let us say, Central Mortgage and Housing Corporation, or of Eldorado—

Q. Or of Polymer?—A. Or Polymer, the answer would have to be no.

Q. You made reference at the bottom of page 1 of your brief to the fact that your institute regrets that the public service was not asked beforehand for an expression of opinion and so on, as the armed services were. Are you referring to anything more in that regard then what we were given in Mr. Taylor's testimony before this committee last Thursday?—A. That is all. I think that reference, or words to that effect, is what the honourable Mr. Abbott said in the House of Commons upon the second reading of this bill. I think the reference appears in *Hansard* for May 26 at page 5104.

Q. You are probably familiar with Mr. Taylor's testimony last Thursday?—A. Yes.

Q. It appears that the Department of National Defence was an exception to the strict rules that have been applied, that there would be no consultation apart from the National Join Council; and that what you have made reference to here?—A. That is right.

Q. Have you any views as to the feasibility of the inclusion of civilian employees with the armed forces in one type of scheme?—A. Well, I do not think I am in a position to answer that. Certainly we would not object to anyone else being entitled to the same opportunities for insurance as the members of our group and the civil service at large.

Q. Certainly you would have no objection if the whole scheme were optional on the part of the individuals?—A. None whatever.

Q. If it is compulsory for both groups, I take it you are not prepared to express an opinion on that without further study and consultation?—A. Yes.

The CHAIRMAN: Mr. Henderson?

By Mr. Henderson:

Q. On page 1, paragraph 3 of your brief you say:

The low rates are achieved by compulsion, which will extend the scheme to a very large number of participants. Furthermore, all civil servants over 60 years old or earning over \$5,000 per year will, in effect, finance out of their own pockets a portion of the provision for death benefits at present borne by the government under the terms of the Civil Service Act, section 56. What percentage of civil servants are over 60 years of age?—A. I am sorry, I do not have that information.

Q. What percentage are earning over \$5,000 a year?—A. I cannot answer that either.

Mr. HUNTER: A very small percentage!

The CHAIRMAN: Mr. Philpott?

By Mr. Philpott:

Q. I just have one or two questions. With regard to the suggestion that you should have more time to consult your people, do you think there would be

any difficulty in making it very clear to your members and all civil servants that there was a definite choice offered to them? Either all of the civil servants could get the low rates which are only the result of compulsion, or if they choose not to take that it would be definitely a higher rate for the lesser number who did come in. Do you think there would be any difficulty in presenting that clear choice to them? It is 40 cents per \$1,000 rate for them if it is compulsory or it is some considerably higher rate—maybe 50 cents or 60 cents per \$1,000—for the fewer who do come in?—A. I do not think it would be too difficult to put that question to our members, no.

Q. It is clearly understood that, by and large, the government contribution, as you say, is going to remain pretty well the same as it is now and the basic purpose of this bill is to offer the civil servants of Canada, if they freely choose to take it on their own, a cheaper way of getting insurance?—A. The question that bothers me—

Mr. MACDONNELL: If they freely choose to take it on their own?

The CHAIRMAN: Please, Mr. Macdonnell, the witness is perfectly competent to answer the question.

Mr. MACDONNELL: That is a statement of fact.

Mr. FLEMING: A complete misstatement.

Mr. PHILPOTT: I am suggesting what choice might be offered to the civil servants; either it is the choice of 40 cents a \$1,000 insurance for everybody, or if they turn thumbs-down on that it is a higher cost insurance.

The WITNESS: The problem which bothers me in trying to answer your question is that I have no information as to what percentage of civil servants who might turn it down—what effect it would have. If 10 per cent elected to stay out I do not know what effect that would have on the rates, but I do think we would have no difficulty in presenting your questions to our members, if I could answer specifically.

The CHAIRMAN: That completes Mr. Lowther's evidence. Thank you, Mr. Lowther. We will now have Mr. Johnston of the Civil Service Association of Ottawa and then we will have Mr. Hewitt-White followed by Mr. Armstrong.

Mr. Victor Johnston, President, Civil Service Association of Ottawa, called:

The WITNESS: Mr. Chairman, I will first provide the background information that has been supplied by the speakers of the other organizations. I am the president of the Civil Service Association of Ottawa, which is an organization made up of members of almost all government departments and almost all classes of civil servants in the Ottawa area. I think it is apparent from the name of our organization that our membership is limited to those civil servants in the Ottawa district, and I do not presume to speak for any civil servants outside of this district. At the present time, the membership of our organization is somewhat less than 8,000—I would say between 7,500 and 8,000. The potential for your information, is in the neighborhood of from 20,000 to 25,000. There are slightly over 30,000 civil servants in Ottawa, but you can appreciate there is a large number of senior civil servants in the higher paid classes whom we do not go out of our way to bring into the organization.

Mr. HUNTER: Snobbish, eh?

The WITNESS: There is also the Professional Institute here, and again we do not go out of our way to bring the professional people into our organization. It has been indicated that there may be some overlap there. I know that is true for I myself am a member of the Professional Institute. But I would say that the overlap is marginal and very small, and that there is very little duplication involved.

I would like to say at the outset that the Civil Service Association of Ottawa heartily supports the principle of group insurance for employees in the public service of Canada. In doing so, we recognize that the group principle requires the support of a large percentage of the persons concerned and that the amount of individual selection be kept at a minimum.

The bill now before this committee is designed, as you know, to introduce a scheme of group term insurance—or “death benefit” as it is called in the bill—as part of the Public Service Superannuation Act at no extra cost to the government. The Minister of Finance stated in the House last Wednesday that, “Assuming normal mortality experience, there should be no net increase in government expenditures as a result of the introduction of this scheme”. (*Hansard*, May 26, p. 5104). That is, the costs to be borne by the employer, one-sixth of benefits paid to those who, at the time of death, were employed in the public service and those who elected to continue participating when retiring on an immediate annuity, as well as the marginal administration expenses, are not expected to be larger than the costs of benefits which are being replaced by this group term insurance. These discontinued benefits include the payment on death of an amount equal to the two months’ salary under section 56 of the Civil Service Act, and an opportunity to take out a full life insurance policy up to \$10,000 under the Civil Service Insurance Act.

The observations of the S.S.A.O. on this proposed legislation are in no way intended to reflect on the thought and energy that have been expended by those who developed the details contained in the bill. However, without their having the benefit of the views of the large number of civil servants who will be compelled to pay almost five-sixths of the cost of this scheme, it is not surprising that there is much room for improvement. It is important, therefore, that the opinions of the membership of our Association, who represent a wide cross-section of almost all classes of employees in the public service, be made known to this committee.

The following recommendations are not intended to be exhaustive, as we have had a very limited amount of time to obtain the views of our membership since this bill was made public last week. The more obvious and important amendments we would like to recommend at this time are as follows:

Recommendation I

This association recommends the inclusion of an additional subsection to follow subsection (a) of section 39, in order to provide for an “optional benefit” which will permit a civil servant to obtain a maximum “benefit” of \$10,000 under this scheme. This recommended additional subsection should also provide for an increase in the total “benefit”, where the civil servant’s salary later exceeds the sum of the “basic benefit” and the “optional benefit” at the time the option was taken.

The inclusion of this subsection providing for an “optional benefit” will remove the present income discrimination contained in the bill. I think it is generally recognized that the need for this type of group insurance depends more on the requirements of the civil servant’s dependents than upon his level of income.

Such income discrimination as now contained in the bill is not justified, even if it is intended to cover only inevitable expenses of last illness and death. Is there any reason to believe that a civil servant making \$5,000 a year should have a more expensive last illness and a more expensive funeral than a civil servant earning, say, \$2,500 a year? Mr. Kenneth Taylor told you last Thursday, May 27th, that the widow of a civil servant frequently tends to want to go home to her home town and that expense is part of the expense consequential upon the death of a public employee. Is the widow of a deceased civil

servant, who was making \$5,000 a year at the time of his death, entitled to first-class passage back to her home, while the widow of a deceased civil servant, who was earning, say, \$2,500, when he died, entitled only to travel by coach? We believe that the needs of the dependents of a lower-paid civil servant may be even greater than those of a higher-paid civil servant, as the opportunity for saving is much less in the case of the former. We do not think that benefit inequality should be enforced when all civil servants are compelled to contribute to a single group insurance scheme at the same premium rate per \$1,000 of benefit. This Association believes that every civil servant should have the option of taking up to the maximum amount of "benefit" obtainable under the plan.

Apart from any change in the actuarial cost of the plan resulting from this change, upon which I will comment shortly, Mr. Taylor has told you that: "The moment you get into options you get into all sorts of problems of election forms and so on, and you triple or quadruple the amount of paper work involved." (Proceedings of Standing Committee on Banking and Commerce, p. 1660). However, the option recommended above may not result in any increased cost; it may remove some of the expense involved in adjusting the civil servant's contribution when his salary changes. At most, the added cost would seem to be marginal and difficult to determine precisely. In a measure as important as this one, such a negligible increase in cost should not be used as the reason for discounting the benefits attainable by introducing an optional feature.

You will notice that our recommended maximum benefit of \$10,000 is equivalent to the maximum of the amount of full life insurance which has been obtainable under the Civil Service Insurance Act. This will, of course, extend the scope of the bill beyond its present intention as indicated in the House by the Minister of Finance and his parliamentary assistant; that is, to provide funds that will be readily available to pay the inevitable expenses arising out of or consequential upon the last illness and death of a contributor. It is also stated that this proposed legislation is not intended to create an estate.

It is the opinion of this association that such intentions should not be the limiting feature of the benefit payable under this group insurance scheme; otherwise the benefit arising from this proposed legislation loses much of its significance. The inevitable expenses of last illness can be more adequately covered by the extension of benefits and increased coverage of the present group hospital-medical plan of the public service of Canada. This could be achieved through a sharing of the premium costs by civil servants and their employer, a measure recommended by this association for many years. The inevitable expenses of death can be fairly adequately covered by participation in the existing Civil Service Mutual Benefit Society, which provides \$1,000 worth of full life insurance for a moderate premium.

Recommendation II

This association recommends the deletion from paragraph (a)(ii) of subsection (1) of section 39 the words "subject to a reduction, to be made as of such time as the regulations prescribe, of one-tenth of such lesser amount for every year in excess of sixty attained by the participant, except that in the case of a participant employed in the public service the basic benefit shall be not less than one-sixth of his salary if such one-sixth is a multiple of two hundred and fifty dollars or the nearest multiple of two hundred and fifty dollars above one-sixth of his salary if such one-sixth is not a multiple of two hundred and fifty dollars". This, as is apparent, will remove the "term" limitation of this group insurance, or "death benefit".

Again I would call your attention to the emphasis placed on the statement that this plan is primarily designed to provide funds which will be readily available to pay the inevitable expenses arising out of or consequential upon

the last illness and death of a contributor. I am sure you will agree that these inevitable expenses do not become gradually less and less after age 60, and disappear entirely after age 70. If there is the need for \$5,000 to cover such expenses at age 60, surely there is the same or almost the same need for \$5,000 to cover these expenses at age 65, or age 70, or age 75. Why does a civil servant need a lesser amount, or nothing at all, for expenses of last illness or death when he may be retired on pension and his income much lower? This does not seem to make sense.

If, however, it is not considered appropriate to remove completely the "term" principle, there is an alternative which, we suggest, would go some way toward meeting the situation. This alternative would be to enable the civil servant to continue a lesser amount of insurance in force, say \$1,000, even after age 70.

Some of the recommendations which I am proposing on behalf of the CSAO lead to an inevitable question: Will these not tend to increase the cost of this group insurance?

We recognize that they may; but we also recognize that when trying to get things as cheaply as possible one runs the risk of buying something of no value. Mr. Taylor also told you on Thursday that one of the main features of this plan was "to get the maximum coverage at the lowest possible cost". (Proceedings of the Standing Committee on Banking and Commerce, May 27, p. 1672). Our association believes that it would have been preferable had the initiators of this scheme endeavoured instead to get the most satisfactory benefit for the greatest number of civil servants at the most economical cost.

I think most civil servants would be prepared to pay a "bit more" for something that would be of more use to them. How much more they would be prepared to pay is impossible now to say, as we have seen no figures on what it would cost to round out this group insurance scheme in the way we would recommend.

Recommendation III

This association recommends that the government, as the employer in this case, contribute to the cost of this group insurance plan on an equal basis with the civil servants involved. The Minister of Finance has told the House that the plan provides a "death benefit of a kind commonly made available to employees by a growing number of large private employers". (*Hansard*, May 26, p. 5104). He did not say, however, whether or not most of this growing number of large private employers limited their contribution on a compulsory measure of this type to one-sixth of the benefits paid plus administration costs. It is my impression that most of the larger good private employers contribute at least one-half of the cost of such welfare plans; that many private employers pay more than half, and even all of the costs of such a group insurance scheme. The government, as an employer, would still be lagging behind the practice of good private employers.

I might add here that I have inquired around during the past few days to find some examples of the practice in private industry, and I think I can safely say that such firms as the Ford Motor Company, Chrysler Corporation, the Sieberling and Dominion Rubber companies, Continental Can, American Can and the Acme Screw and Gear Company, pay the full cost of schemes of this nature. Generally, these schemes are combined package deals, commonly coming under the heading of health and welfare plans. I just give you those names as an example of firms which I am fairly confident make the full financial contribution required by the cost of these schemes.

Recommendation IV

This association recommends the deletion of subsection (2) of section 51, which terminates the issuance of any further full-life insurance policies under

the Civil Service Insurance Act. The present modest amount of group term insurance which would be provided under this proposed legislation is no substitute for the full-life insurance which has been obtainable up to a maximum of \$10,000 under the Civil Service Insurance Act. The adoption of our previous recommendations, however, would overcome this difficulty and make the adoption of this recommendation unnecessary.

I would also like to add here that it has been stressed that one of the main reasons for discontinuing the issuance of policies under the Civil Service Insurance Act is the relatively low participation by those eligible to take out policies. I have heard that there are some 13,000 policies in force, out of a potential of about 60,000. I rather hesitate to give you that 60,000 figure, as I only recall having run across it in some of my readings, during the past week, in connection with this bill. This rate of participation, I think, is not too bad considering that it is not compulsory insurance and that the sale of the insurance has not been pushed. Using my own case as an example, I first heard of this civil service insurance a few years ago when I was made permanent in the public service, and heard no more about it until it was indicated some months ago that the issuance of new policies would be terminated. This civil service insurance is one light that the government has been successfully hiding under a bushel for a number of years.

I would like to comment briefly on the feature of this proposed legislation that requires compulsory participation by every civil servant now contributing to the Public Service Superannuation Act. I have already stated that this association recognizes that group insurance requires the support of a large percentage of the group concerned and that the amount of individual selection be kept to a minimum. However, it may be necessary to review the coverage presently proposed and to consider the possibility of exempting some special groups.

A group about which I have received some representations, both orally and by letter, is one that has already been raised in this committee; namely, those single women who are employed in the public service. I think I could do no better than to quote from a letter which I have recently received from a member of my association:

Here is the situation in which a great many single employees in the civil service find themselves. We have been employed for a number of years and during that time, at great sacrifice on our part, have contributed towards the upkeep of our parents and made provision in the form of insurance for their welfare should anything happen to us. This, without asking aid of the government or receiving any. Now we find ourselves in the position where in a short time we will have no living relatives—in fact some of us are in that position at the present time—and insurance of the type proposed by the government would mean paying money towards an estate for which there would be no beneficiary other than charitable organizations.

We recognize this as a legitimate objection to the present conditions contained in the bill, but find it difficult to make any firm recommendation until the following facts are known: How many single women are there now employed in the public service? And, what precisely would be the effect on the present cost of 40 cents per \$1,000 per month payable by the civil servant if this group were to be exempted from the coverage of the bill?

I would also like to quote a paragraph from a letter addressed to me concerning an additional point I have been asked to raise in connection with this bill:—

Another objectionable feature of this "compulsory" insurance is simply that—"compulsory". We work for our money the same as any other class of employee and I for one reserve the right to say what I

shall or shall not buy with it. We have never been approached as to whether we favor insurance or not—in fact the subject has just leaked out via the grapevine. The only democratic way would be to have a vote taken as to our wishes in the matter.

As a member of the C.S.A.O. I feel that it is your responsibility to see that we single employees without dependents receive a break, and that if it is to be “compulsory” to subscribe to this insurance scheme that we have the opportunity of taking a policy of not more than \$1,000.

These same thoughts are very well expressed in another letter which I would like to read to you. This letter is signed by five single women employed by the government here in Ottawa:—

Dear Mr. JOHNSTON:

We are writing to express the point of view of many single women in relation to the proposed legislation concerning compulsory life insurance for civil servants. We feel that this point of view has not been effectively presented either to the Civil Service Association or to the government.

The proposed legislation, it seems to us, is of benefit primarily to married men who may thus build up an estate for their heirs. The average single woman has no heirs and yet she would be compelled to contribute money to a scheme from which she derives no benefit.

Although it is true that the insurance would provide funds to cover expenses arising out of a long illness and death, this seems to us a very secondary part of the scheme and one that would not warrant compulsory contributions according to salary. Participation in a health insurance scheme would probably take care of most of the expenses of an illness, and funeral charges can be covered by a few hundred dollars.

It seems to us, therefore, that it is unfair to compel a group of individuals (i.e., single women) to pay into an insurance scheme which primarily benefits another group of individuals (i.e., married men). For most of us the scheme will cost from \$12 to \$24 a year, which is, in effect, a charitable donation without benefit of receipt for income tax purposes.

We are in favour of government insurance for civil servants but we feel that it should be up to the individual whether or not he or she participates, and to what extent.

I will conclude with a comment as to my understanding of the position taken by the National Joint Council in connection with the subject matter of this bill. Much of the evidence provided by Mr. Taylor to this committee on Thursday last dealt with this, and the Minister of Finance the day previous had said, “I can inform the House that the National Joint Council has endorsed the broad outlines of the plan as a whole”. (*Hansard*, May 26, p. 5103.)

It is my understanding that the National Joint Council, as an employer-employee council, was not in a position to make any endorsement of the plan, as most of the staff side representatives were only able to express their views as individuals. This proposal was presented to the council in a very unusual way, which involved the strictest secrecy on the part of all members of the council. The staff side were unable to deal with this subject in their normal way, by taking it back to their associations for guidance. The staff side cannot function as part of the council unless the association representatives can speak on behalf of their associations. And unless the staff side is allowed to proceed in this way, the council itself cannot function as an employer-employee body.

The procedure followed by the government in only allowing the members of the council to make personal suggestions on the plan presented to them was, in my opinion, an indication that the government lacked confidence in its employees and their associations to handle a subject of this nature. I am

given to understand that the National Joint Council Committee was told that the government had no intention of increasing "fringe" benefits at this time and the committee would be advised not to spend any time exploring schemes or plans that extend to any significant extent beyond the one proposed by the government. This certainly must have conditioned the scope of the suggestions which the committee advanced. In addition, I am informed that the council was told that the government had not referred the proposed plan to the council for its endorsement, but only for any comments it might wish to submit. It is also interesting to note that the statements made public by the National Joint Council have referred to a group life insurance scheme, whereas in the bill now before this committee the emphasis has been shifted to "death benefits" for those inevitable last illness and death expenses. Surely the government is not now primarily interested in assuring payment to the doctor and underwriting the undertaker.

I have been greatly disturbed by the manner in which the government has apparently used the prestige of the National Joint Council to obtain support for the application of a compulsory tax on civil servants, without giving them an opportunity to express their views until this late stage in the legislative process. This is a serious limitation as we have found that it is most difficult for staff associations to have changes made in legislation affecting civil servants once it has been presented by the government.

In summary, the Civil Service Association of Ottawa has recommended that the maximum amount of benefit be increased, that every contributor be allowed to take up to the maximum amount of benefit if he elects to do so, that the "term" aspect of this group life insurance be removed, that the employer contribution be at least equal to one-half the cost of the scheme, and that further consideration be given to the universal, compulsory feature of the present bill.

The observations which I have just made on this bill were approved on Tuesday night, June 1, by the council of the C.A.S.O. The council is the policy-forming body of our association which acts between annual general membership meetings, and is made up of representatives who are in day to day contact with our membership and with civil servants generally in their areas. When the bill was referred to this committee on May 26, I immediately called a meeting of our council for last Tuesday evening. I had sent to all of our representatives a summary of the proposed amendment to the public service Superannuation Act, substantially as contained in appendix "A" of your proceedings for May 27. At the beginning of our meeting last Tuesday evening I was handed a petition signed by sixteen members of our association in one area of the government service. It reads as follows:

We the undersigned, who are all members of the C.A.S.O., wish to express to you and to the C.A.S.O. council that we are not satisfied with the legislation on group life insurance as outlined in summary of the C.A.S.O. Bulletin just received covering the special meeting to be held tonight.

Following our discussion on Bill 463 at this council meeting, I was told by one of the members present who had signed this petition that the recommendations we would present to this committee would meet with the objection of this group.

In addition, only this morning I was handed another petition signed by about seventy-five civil servants. This one reads:

We the undersigned, hereby register our protest against the proposed group life insurance to amend the public service Superannuation Act for the following reasons:

(1) Benefits will cease at the age of 70 which is less advantageous than the terms given by private insurance companies.

(2) No option is offered to those who have already made provision for expenses of last illness and death and will lose by discounting such insurance.

(3) No option is offered to those who have no dependents and whose estate will cover the expenses of illness and death.

Mr. Chairman, and members of the committee, on behalf of my association I would like to express our appreciation for the hearing you have given our representation. I would also like to express my own personal thanks to the clerk of the committee for the assistance he has given me in enabling our submission to be received by you prior to this meeting. Thank you very much.

By Mr. Macdonnell:

Q. I would like to ask one or two questions and then give way to some of my colleagues. I think that we can all agree in the vernacular that you have said a mouthful as I read your report, particularly the last couple of pages, I would like to ask one question particularly. I am reading now from the middle of page 7: "The staff side were unable to deal with this subject in their normal way, by taking it back to their associations for guidance." Do I infer from that that in previous cases there was more opportunity for you to discuss matters with government?—A. With government?

Q. "Unable to deal in their normal way". I understand from that that you did not have time to deal with it as you ordinarily would have?—A. The lack of time resulted from the way it was presented to the council. That is, it was presented as a confidential document and it was requested that the members of the council carry it no further than themselves. In that way it was different, as far as I understand, from the general practice in discussing subjects at the National Joint Council.

Q. That is what I meant. In this case due to the prohibition or imposition of secrecy you did not have the time you would usually have to discuss it?—A. That is true.

Q. Now, you have put in your summary paragraph a very formidable list of requirements, and you wound up by asking that further consideration be given to the universal compulsory picture of the present bill. I take it from that that you feel that there should be opportunity for further discussion by you before it is rushed through into legislation. Is that correct?—A. If I might enlarge on the answer, Mr. Chairman, I would like to say first that if there is any delay in this bill,—that is if it is unable to be put through at this session—civil servants, as they have in the past, should be enabled to continue taking policies out under the Civil Service Insurance Act. That is one thing I emphasize: if the staff associations are held responsible for delaying this bill then I think, at least for my own self, I would like civil servants still to have the opportunity to take out life insurance protection under the old Act.

Q. Do you not recommend that the old Act might be continued in any event?—A. Yes, we recommend that it might be continued, but we also state that the adoption of our other recommendations would overcome the difficulty involved in the dropping of the life insurance act and make action on it unnecessary.

Q. In other words you want it continued unless the new requirements which you have set out here and which would take its place are inserted into the bill?—A. That is correct.

Q. There was another thing that interested me particularly which you have brought out and it is this: at the bottom of page 2 you say: "We do not think that benefit inequality should be enforced when all civil servants are compelled to contribute to a single group insurance scheme at the same premium rate per \$1,000 of benefit." I take that to mean that you think that under this compulsory overall scheme some people are compulsorily pay-

ing for benefits that other people get?—A. I would rather put it this way, Mr. Chairman. On a compulsory scheme as envisaged in the bill before you, each civil servant should have the same opportunity to take up to the maximum amount of benefit.

Q. I understand that, but having said that would you not point out that as it is now what it really means is there is an inequality—at the bottom of page 2?—A. That is correct.

The CHAIRMAN: Mr. Noseworthy.

By Mr. Noseworthy:

Q. Mr. Chairman, may I ask Mr. Johnston first of all whether his Ottawa association is a part of the federation of civil servants or is amalgamated with it?—A. No. The Civil Service Association of Ottawa is not tied in with these other organizations.

Q. You say it is not tied in with either of the others?—A. The only level at which we make our contributions to them is at the national joint council.

Q. And what is the proportion of male employees to female employees belonging to your association?—A. I could not answer that. I do not have the information available at the present time.

Q. Could you not give us a general idea?—A. I could not say at this time.

Q. What opportunity have you had to find out whether the representation you made on behalf of the single women really represents their point of view, or does it merely represent the point of view of a few who have approached you?—A. The subject has been raised by a number of people in this group, and their plight, as it were, was appreciated by our representatives who last Tuesday evening approved of our submission.

Q. Is it possible that those who objected to this scheme have been more audible in making their objections known than those who approved of the scheme themselves?—A. If I answered that question I would be merely speculating.

The CHAIRMAN: Everybody else is speculating, so why don't you jump in too?

By Mr. Noseworthy:

Q. In other words, you have had no opportunity of really finding out what the majority of the single women really want, as regards this scheme?—A. We have had an opportunity, in so far as they are represented in our organization and in so far as our representatives who approved this document on Tuesday night acted on their behalf.

Q. It is the usual practice of the government to discuss legislation or regulations with your organization affecting the conditions of civil service employees, and to give you an opportunity of discussing them in turn with the members of your organization?—A. I would not like to say whether or not it has been, over an indefinite period in the past, its practice to do so. I think that in many cases the government uses the National Joint Council as a soundingboard to determine what the staff organizations consider, or what their opinions would be on certain measures that it would wish to introduce.

Perhaps I should qualify that and explain that I could not honestly say whether or not it is government policy. That information had better come from the Minister of Finance.

Q. Would you want to go on record as saying that the government's approach to you, and to your organization on this matter was different from their usual method of approach?—A. The approach in this matter, as it was discussed in the National Joint Council, was unusual in my opinion.

Q. Unusual in what respect?—A. In the fact that the subject was given confidentially to the council and the council was only able to provide individual opinions.

Q. Representative individual opinions?—A. Not representative; just individual opinions.

Q. When was that given? Just let me fix that date; when was that given?—A. I understand from the evidence given last week before the committee that it first appeared before the National Joint Council late last fall.

Mr. NOSEWORTHY: Could you not make it more definite?

By Mr. Fleming:

Q. I think that Mr. Taylor said that that was when it started, but he did not say that the National Joint Council had given approval then.—A. No. It was first introduced in the council at that time, as I understood the evidence.

Q. I think he intimated that the final consultation was in April. That was quite recent.—A. Mr. Taylor or the chairman of the council would be in a better position to answer that question.

By Mr. Noseworthy:

Q. You make some very definite recommendations. I presume that, providing the committee recommends and the government accepts these recommendations, you would rather see this bill go through with those recommendations and be adopted than to see it held over?—A. We would like very much to see the bill passed with these recommendations.

Q. At this session?—A. At this session. But if for any reason it is felt that it should be held over, then the opportunity for civil servants to take out insurance under the civil service insurance Act should be continued.

Q. You mean in the meantime?—A. In the meantime.

Q. Providing these recommendations cannot be accepted, would you then prefer to see this bill held over for next session or to see it passed at this session as it is now presented to us?—A. If at the same time the government is prepared to reopen the civil service insurance Act, then, as has been indicated by some previous staff representatives here, I think it would be useful if civil servants could have more time to study the implication of this bill and to make their opinions known through their staff organizations to the National Joint Council. Then I would like to see these opinions forwarded to the Minister of Finance.

Q. Is it your opinion that if this bill were held over until the next session of parliament that we could probably get a better bill than this one?—A. I would say that with more opportunity for civil servants to consider the terms of the bill and to crystalize their reactions to it, they would be able to provide a very useful contribution to the people who would be developing the terms of the legislation.

Q. Thank you.

The CHAIRMAN: Are there any further questions? Mr. Fleming.

By Mr. Fleming:

Q. Mr. Johnston, when you referred just a moment ago to the expression about wishing to see the bill passed with these recommendations at this session, I take it that you are including among those recommendations the one that the compulsory feature should not be applied?—A. Mr. Chairman, I believe in connection with the compulsory feature we made a statement that it is difficult to make any form of recommendation until certain facts are known.

Q. I may take it then, in understanding your remark that I have just referred to about wishing to see the bill passed with your recommendations included at this session, you are to be taken to mean that you do not want

the compulsion feature applied in the bill?—A. There has been considerable objection from a number of our people to the compulsory feature. The reason we would like to see it put through at this session with the recommendations—unless the other Act is again thrown open—is because if it is not, and no policies are obtainable under the present civil service insurance Act, there would be many civil servants who would not have an opportunity to be covered under either scheme.

Q. You do not want the civil servants to be dropped between two stools?—A. That is correct.

Q. You do not want the government to cut off the present civil service insurance if this bill is not proceeded with; but you are not asking that this bill be adopted at this session with the compulsory feature in it?—A. I think the general feeling, as far as I can learn, is that the compulsory feature, particularly where the government is only paying a bit more than $\frac{1}{2}$ of the cost, is unfortunate.

Q. May I take it then—

The CHAIRMAN: He has answered your question, Mr. Fleming.

By Mr. Fleming:

Q. I take it then that you are not asking that this bill be adopted at this session with the compulsory feature in it?—A. No, we have qualified it in that we believe the compulsory feature should be reviewed.

Q. Now, as to the associations which have been represented here today, I take it that you are in the best position to make rapid contact with your members, in view of the fact that they are all located in the Ottawa district?—A. Yes, I believe we are in a better position to do that than any other of the organizations.

Q. Is it not a fact, as you have indicated, that you simply have not had an opportunity in the limited time since this measure was introduced in the House last week, in which to consult your members as to what their wishes are?—A. We have endeavoured to consult them in the usual way in the time available. But if there was more time available, our approach might be a bit different. This is a rather important measure, as you will appreciate; and the first thing we would want to do would be to set up a committee to study it and make some recommendations, and then take those recommendations to our membership for their reactions.

Q. Would it be fair to say that what has been forced upon you is a rather precipitate review of a measure?—A. I think the measure is very important and I also think that we should have had more time to discuss it with our membership.

Q. And the result of such discussion and consultation would have been beneficial all around, would it not?—A. Oh yes, definitely!

Q. Is it fair to say in the light of the quite extensive recommendations which you have made that the changes that you would wish to see made in the bill would substantially alter the whole scheme in the form in which it appears in this bill?—A. It introduces some major changes.

Q. Thank you.

By the Chairman:

Q. Mr. Johnston, will you please tell me what your reaction was to the inquiries made by the members of your association in response to the news-story which appeared in the *Ottawa Citizen* on February 2?—A. There were a number of questions put to me following the appearance in the press of certain details of this plan. At that time I made no comment on them. As an alternate member of the National Joint Council, I had the document outlining the plan

and in that capacity the document was given to me on a confidential basis. It was my intention to respect the confidence placed in me and therefore I did not discuss it when it was referred to me.

As a matter of fact, at our council meeting towards the middle of last month, the subject was raised and we discussed in general the broad outlines of group insurance and what our association would like to have. But I did not pass on the information that I personally was in a position to discuss, or that our representative on the National Joint Council was in a position to discuss. We discussed group insurance in a general way as a new subject.

Q. Suppose I had been a member and at that time I said to you: "I see in the *Citizen* or the *Journal* that this is going to be compulsory". What would you have said to me? Would you have denied it or discussed it with me, and said: "It is going to be compulsory". You knew it was going to be compulsory; what would you have said to me, or did that come up? Did someone say that to you?—A. If the issue had been raised, I am sure that I would have said: "You can take the newspaper information on its face value as you do other items of news."

Q. You mean; of no value?—A. No, not of no value. I am sure of considerable value.

Q. I see.—A. But I would like to make this one comment, seeing that the subject of information in the press has been raised.

Q. Yes.—A. I have before me a copy of the *Ottawa Evening Journal* for April 14.

Q. Would you please show it to the committee?—A. Look at the headline in that paper, "C. S. Life Insurance Compulsory".

Q. And what is the date of that paper?—A. April 14; but just notice the sub-headline. The sub-headline says: "Government to pay one-half of premiums", and in a paragraph down a bit further I quote: "Half the cost will be carried by the government and half by the individual civil servant, soldier, sailor or airman, under this policy for the group plan."

Mr. FRASER (*Peterborough*): That was just a "come-on".

The WITNESS: One comment I would like to make in connection with this is that the emphasis on the compulsory aspect of it has only been raised since the bill was given to the House. I think a good deal of the reason for the hesitation previously was because of this indication that the government was going to pay half. If the government was going to pay the full amount, the compulsory aspect of this would be insignificant.

The CHAIRMAN: I think in fairness I will quote from the story in the *Citizen* of February 2: "The government will pay the administrative costs of the scheme which, however, will be nominal since the scheme will be administered by the finance department through the central pay office, much along the lines of pay deductions at the source for the recently revised and extended Public Service Superannuation Act."

Mr. MACDONNELL: What paper is that?

The CHAIRMAN: The *Citizen* of February 2, 1954. Mr. Johnston was reading from an April 14th issue of the *Journal*. I am reading from the *Citizen* dated February 2, at that time, I am informed—the *Journal* carried a story which was almost similar to the one carried in the *Citizen* which gave full details of the bill. The story Mr. Johnston referred to is unsigned. The story printed on February 2nd is signed by Alex Hume of the *Citizen*. The April story in the *Journal* was unsigned.

The WITNESS: Mr. Chairman, I did not wish to raise a controversy on that point.

The CHAIRMAN: But the point is that you suggested this is a misleading story. As far as I know, it does not relate what is in the bill. The question I

asked you had to do with a story printed on February 2nd which is in exact detail and covers every aspect of this bill. Apparently it appeared both in the *Journal* and in the *Citizen*. As I understand it, they blanket this area. The *Le Droit* might have carried the story too—I did not examine it.

The WITNESS: I am sure it did.

The CHAIRMAN: The question I ask is: What reaction did you have?

Mr. MACDONNELL: They may not know that it is a recognized method of government policy.

The CHAIRMAN: It is not a question of government policy. It showed initiative on the part of the newspaper men.

The WITNESS: Mr. Chairman, we did not encourage a reaction at that stage, because the people who had the facts available were not in a position to reveal them.

Hon. MEMBERS: Hear, hear.

Mr. MONTEITH: The Civil Service Insurance Act does not automatically go out of force until this new Act comes in, is that not correct?

The CHAIRMAN: Mr. Taylor indicates that is so.

Mr. MONTEITH: In other words, until this new Act is proclaimed the insurance is available for all civil servants who are entitled to it?

Mr. TAYLOR: The bill contains a clause which says that there will be no new policies issued unless the medical examinations were under way prior to May 1st. If this bill is not passed then, of course, that clause is disregarded. In the meantime, I understand the minister has given instructions that any applications which come in are to be held in the pending file.

The CHAIRMAN: Mr. Johnston?

By Mr. Johnston (Bow River):

Q. Some of my questions have already been cleared up. To start out, I would like to ask the witness if he is a member of the joint council.—A. I am an alternate member. The member for our organization is Mr. John Mainwaring.

Q. Was he present at the conference between the joint council and the deputy minister when this was first discussed with him?—A. I think he has been in a position to follow the subject through the council.

Q. The chairman indicated to you a moment ago that the story you had in the *Journal* was not the right one and that story he quoted from the *Citizen* published on February 2nd was the one which should have been considered. As far as you understand it, is that true?—A. Well, as far as I know now, the government is not prepared to pay one-half of the premium.

Q. I think that would be correct, and therefore it would have been difficult for you to ascertain which of those stories was the true one?—A. I personally knew that the *Journal* story was wrong, unless the government had changed its policy on this matter in the meantime, between the two issues, and I had not been so informed.

Q. How did you find that out? You said you personally knew it was wrong.—A. As an alternate member of the National Joint Council I received copies of the document which were distributed to the council and copies of the minutes.

Q. So far as you knew the deputy minister at that joint council meeting did indicate that the terms of the bill were such that the government would not be paying half of the premium?—A. I rather hesitate to say what went on at the council meeting from a reading of the minutes. I would prefer to have the staff side chairman or the chairman of the council do that.

Q. Let me put it this way: since you are an alternate member of the joint council and you did receive some information from your representative, you still were not in a position to give any information whatever to the rank-and-file of your organization, because of the secrecy involved; is that true?—A. Having the information on a confidential basis I did not endeavour to solicit opinion from our people on the subject. And I did not wish to do so until it had been made public.

Q. You were not in the position to get the opinion from your members until about a week ago?—A. I would say that is true.

Q. You did read from the petition which you received from some of your members indicating their disfavour as far as the compulsory feature of this bill is concerned?—A. Yes.

Q. Did you receive any communications whatever from your membership agreeing with the bill as it is?—A. Yes.

Q. What would be the proportion?—A. Some of our people are in favour of it. I would not like at this stage to indicate what the proportion is, because it has been based on an individual approach.

Q. Could you just tell us roughly whether or not those who agreed with the bill as is, would be in a different class from those who objected? I understand those who objected were mostly the unmarried ladies in the organization. Would it be true that the others would be mostly the married ones?—A. I have not had enough individual representations to classify them according to any particular group. I might add that there have been varying degrees of acceptance.

Q. What do you mean by that: "varying degrees of acceptance"?—A. One person may be prepared to accept the bill as it stands. Someone else may be prepared to accept the bill with a minor amendment to some aspect of it. The majority, as far as was indicated at our council meeting on Tuesday evening, supported the observations which we have already made.

Q. That is, that you would accept the bill as it is with the recommendations made by your organization?—A. I should say that we would like to see these recommendations adopted in the bill.

Q. And if they are not adopted you would like the bill held over until such time as you and your organization could give it further investigation?—A. I think it would be of value if the staff side of the National Joint Council had sufficient time to consult their membership in detail on this—otherwise they are in no position to speak as staff side representatives.

Q. Coming back to that joint council meeting again, Mr. Johnston, I think you did express the view that this was an unusual situation where the deputy minister would request such secrecy from the joint council?—A. In my opinion it was unusual.

Q. It would seem, if that is true, that it is an unusual procedure and probably this bill should be given a little more consideration than it has been given.

The CHAIRMAN: Mr. Robichaud?

By Mr. Robichaud:

Q. You read the petition which was signed by 16 members of your organization. Could you tell us what percentage were male and what percentage were female employees?—A. I am sorry, I do not think I am able to do that. There are just names and initials. I do not want to pull a Joe McCarthy here—I would not like to read any names—but there are some names which appear to be female names, yes.

Q. You said the compulsory feature is most important because of the small contribution by the government. You made that statement did you not?—A. I think I was making the general statement that if the government's

contribution was substantially more the compulsory feature would be much less significant.

Q. In making this statement did you give any consideration to the low rate which is offered on account of the compulsory scheme?—A. I appreciate that the rate seems to be very low, but as I have indicated the important thing is: do you get what you want and not do you get something at a very low price?

Q. Now, in your first recommendation you say this:

This association recommends the inclusion of an additional subsection to follow subsection (a) of section 39, in order to provide for an "optional benefit" which will permit a civil servant to obtain a maximum "benefit" of \$10,000 under this scheme. This recommended additional subsection should also provide for an increase in the total "benefit", where the civil servant's salary later exceeds the sum of the "basic benefit" and the "optional benefit" at the time the option was taken.

Now, in making this recommendation, does it not indicate that your association favours the compulsory clause?—A. We have called it an optional benefit.

Q. You say you recommend this in addition to what is in subsection (a) of section 39. In other words, you do not object to what is in the section so far?—A. There is still the basic benefit. The compulsory feature of this is where it applies to everyone. You can still have the basic benefit if you exclude certain groups and thus remove some of the compulsory aspects of it.

Q. In other words, you concur with the compulsory benefit up to \$5,000, but in addition you would recommend a benefit up to \$10,000 which would be optional?—A. I would not call it a compulsory benefit. I would say a "minimum benefit" with the option of taking out more.

Q. If the benefit of taking more is optional, the first one is compulsory, is it not?—A. That is not the type of compulsion that we are discussing in this presentation. The compulsion to which we are referring is the fact that all civil servants under the Public Service Superannuation Act are required to contribute to this scheme.

The CHAIRMAN: Mr. Hellyer?

By Mr. Hellyer:

Q. Mr. Johnston, is the life insurance which has been available under this Civil Servants Insurance Act much cheaper than similar insurance in private companies?—A. I think that possibly someone in the Department of Finance would be able to give a more accurate reply to that question.

Q. You have no idea?—A. I would not wish to make an observation on that particular point.

Q. By inference you must believe that there are advantages, or you would not recommend that it be left in the Act?—A. I think that there are advantages to group insurance.

Q. In your brief you recommend that the term provision of the proposed bill be dropped. Have you any idea of the difference in cost between straight life insurance and term insurance?—A. I think we indicated that we did not know what the difference in cost would be, and that until we did know it would be difficult to make any definite observation. I have no idea what the difference would be.

Q. But you realize that it is a very substantial difference in cost?—A. I do not realize that it is a substantial difference. I would imagine that there would be some difference.

Q. On the first page of your brief, you say:

The bill now before this committee is designed, as you know, to introduce a scheme of group term insurance—or “death benefit” as it is called in the bill—as part of the Public Service Superannuation Act at no extra cost to the government.

When you say that, are you excluding the cost of administration?—A. It is my understanding from the minister’s statement that the introduction of this scheme would result is no net increase in government expenditures.

Q. In other words, you believe that there are compensations to the government which will save them part of the cost of administration?—A. They are removing these people from section 56 of the Civil Service Act, which, as I have indicated, covers a death payment equal to two months’ salary. That is equivalent to one-sixth of the annual salary.

Q. The saving in those cases would compensate for the increased cost of administration?—A. That seems to be the basis on which they have been considering it.

Mr. HELLYER: Will we be able to get further information?

The CHAIRMAN: Mr. Taylor will be before us later today.

By Mr. Philpott:

Q. On page 3 of your brief, you make a suggestion for a single option. You are not suggesting that under the changes you propose there should be many different policies, but just the single option going to \$10,000, is that right?—A. We deleted the word “single” from that statement. All that we are saying now is that there should be an option.

Q. What your brief boils down to is this. The reaction you get from a great many members must be very good, because you want the limit raised from \$5,000 to \$10,000?—A. The fact that this scheme will replace the \$10,000 amount of insurance that has been available under the Civil Service Insurance Act is, I think, primarily their consideration in suggesting a raise in this scheme to \$10,000. Then they are not losing the opportunity to be able to take out \$10,000 worth of insurance, which they have had previously.

Q. At the end of your brief you suggest merely that further consideration should be given to the compulsory feature of the bill. That is the main qualification you have about the whole thing, that, subject to the recommendations you made, further consideration should be given to the compulsory nature of the bill?—A. No, sir, we have a number of very definite recommendations we would like to see in addition to a review of the compulsory feature.

Q. I realize that, but that is your final suggestion, which you do not press. The point I am trying to make is that there are certain concrete recommendations you make but all that you ask about the compulsory feature of the bill is that further consideration should be given to it?—A. We believe that further consideration should be given. We have indicated that we find it difficult to make any firm recommendation on that because we do not have certain facts that would make a recommendation possible.

Mr. PHILPOTT: Thank you.

By Mr. Huffman:

Q. On page 5 of your brief, Mr. Johnston, in the next to last paragraph, you state this:

I have already stated that this association recognizes that group insurance requires the support of a large percentage of the group concerned and that the amount of individual selection be kept to a minimum. Have you any suggestion other than what is included in the bill as to how the large percentage of your membership could be included?—A. At the present

time we have not had the opportunity to develop all the features of this bill. As we indicated at the beginning, these are the highlights of it based on the limited opportunity we have had to discuss this with our membership.

Q. Supposing that in place of the word "compulsory" the word "comprehensive" had been used—a comprehensive insurance plan—would it not have been easier possibly to have sold the idea to the association?—A. I would have to know, sir, how you define "comprehensive".

Mr. FLEMING: A rose by any other name.

Mr. HUFFMAN: In this brief you have put on record the letters that do not approve of this. Would it not put your representation in a better perspective if the letters of approval that you stated had been received had been recorded here too?

The WITNESS: I have not stated that I received any letters of approval. If I had received some, I would have been only too happy to have placed them on the record. I think I made the comment that I have had some personal observations from one or two individuals of approval of this bill.

Mr. FLEMING: I want to take one point that Mr. Huffman raised about group insurance. Mr. Johnston, is it not a fact that in connection with group insurance schemes the attempt is made to win the support of that substantial number of the group by making the scheme sufficiently attractive to them that they want to come in on it voluntarily?

The WITNESS: I would expect that that would be the case in many schemes.

The CHAIRMAN: Thank you, Mr. Johnston. Mr. Hewitt-White.

Mr. W. Hewitt-White, representing the D.V.A. National Employees Association, called:

The CHAIRMAN: Mr. Hewitt-White represents the D.V.A. Employees National Association. He did not prepare a brief. He will speak to the committee and you may question him afterwards.

The WITNESS: The D.V.A. Employees National Association is a body of between 6,100 and 6,200 employees in the Department of Veterans Affairs. Our potential is approximately 13,000. I do not propose to take up very much time of the committee. Many of the comments I originally intended to make have already been covered by the submission made this morning by the Civil Service Federation of Canada, with which we are affiliated, and as a national association affiliated with that federation we give our support to that brief. When the bill was first made available to us last Thursday, a week ago, we sent it, together with the accompanying explanation supplied by the Department of Finance, to all our branches by special delivery mail and asked for their comments. You will appreciate that our branches are scattered from St. John's, Newfoundland, to Victoria, British Columbia. I have not at this date heard from all branches, but a considerable proportion have registered the opinion of their members. These may be summarized briefly as follows: First, the majority agree with the legislation in principle. Second, strong objection is taken to the compulsory feature being introduced without previous reference to the members of the service. I think the best expression of that opinion is contained in this quotation from a letter I received from one of our branches:

The majority of us are very gravely concerned with the arbitrariness of the legislation. We feel strongly that any bill concerning the entire body of civil servants should be brought to the attention of that body before such legislation is introduced in the House of Commons. Such disregard of the will of the people seems to bear the taint of authoritarian paternalism and makes us wonder about this as a criterion for the future.

Third, the majority of female employees oppose the plan for one or more of several reasons. These I will try to summarize. Many of them feel that they are already adequately covered, and they do not want to take on any more coverage. Many of them object to the feature of the bill which provides for termination of protection at age 70. Single girls particularly feel that they are paying something for nothing; they do not feel that they will need it. Many of them are not contemplating making the civil service their career; they do contemplate getting married and leaving the service when they become married, and they feel that they will never realize anything from this and it is money down the drain. The last expression that I have here of feeling on the part of the female employees is that nearly all of them express a preference for insurance which has a savings feature. I am not too sure how that correlates with the one immediately preceding, but anyway they like to think that when they are paying for insurance they are going to get some money out of it eventually. The fourth point: there is a considerable body of opinion, and I would say a majority opinion as far as I can gather it, that there be a minimum of \$1,000 coverage which is compulsory, but that it should be optional for the employee to take a coverage up to a maximum of \$5,000. The minimum feature is attractive to single men and to women if they do have to come under the scheme. If it is compulsory, then they feel it should be just for a minimum amount, while most of the married men would like to be able to take out additional coverage.

Those are all my comments, Mr. Chairman. I would be happy to answer any questions. I want at this time to thank the committee for the opportunity of appearing before them.

Mr. PHILPOTT: It is very helpful. It speaks for itself.

The CHAIRMAN: We have Mr. Armstrong, one of the assistant deputy ministers of the Department of National Defence.

Mr. MACDONNELL: I did not quite realize that Mr. White was getting off so quickly. Will he be here later?

The CHAIRMAN: I assume so. Mr. Armstrong.

Mr. E. B. Armstrong, Assistant Deputy Minister, Finance Division, Department of National Defence, called:

Mr. FLEMING: May I ask in what capacity Mr. Armstrong is appearing? Have we heard now from all the associations of the civil servants?

The CHAIRMAN: Yes.

Mr. FLEMING: On what basis is Mr. Armstrong speaking?

The CHAIRMAN: Mr. Macdonnell asked for the armed forces' views and I asked Mr. Armstrong to come here.

Mr. FLEMING: I do not think that Mr. Macdonnell asked for Mr. Armstrong; he asked for an expression of the views of the armed forces. Mr. Armstrong, I understand, is the assistant deputy minister of the department. That is a different matter from hearing from someone who speaks on behalf of the members of the armed forces, as I gathered we were attempting to do today by hearing the views of persons representing the members of the civil service.

The CHAIRMAN: He was the man who was responsible for obtaining their views and I thought that the committee would be interested.

Mr. HUNTER: I think the committee would be interested.

The CHAIRMAN: We asked for someone in the department, and Mr. Armstrong is the best qualified man in the department to speak on this subject.

The WITNESS: Insofar as the members of the forces are concerned, unlike the civil service an effort was made to canvass their opinion with respect to the group insurance plan, and in particular with respect to the application of the plan on a compulsory basis. This was done by sending to each of the commanders in the commands, including the overseas commanders in Korea, Germany, and the air division in France, a statement on the principal provisions in the plan, that is the people who would be covered, the premium rates, the amount of the insurance, contribution by the government, the fact that the interim allowance would be terminated in the event that the insurance plan was authorized and they were asked to obtain a consensus of opinion from a good cross section of the units and establish in their command whether or not the plan was acceptable on a compulsory basis. Each of the commanders consulted the units in his command and we received from them an expression of opinion that the majority of the members of the forces were prepared to accept this plan on a compulsory basis. The nature of the replies varied. Some commands reported on a percentage basis. They varied in the Air Force from 75 per cent to 90 per cent in favour. In the Navy, roughly 75 per cent in favour of C.P.O.'s and above, and some 65 to 60 per cent below that rank. In the Army most of the replies was on the basis that the majority were in favour. On that basis the Department of National Defence, through the minister, recommended that the members of the forces be included under this plan.

By Mr. Macdonnell:

Q. A good many of us have been in the army and I think we have a very shrewd idea as to how this thing came about. I would like to ask you point-blank whether it is conceivable to you that if it was made clear to the men in the army—I suggested here the other day that the average rate of service might be ten years, and I am sure now I was very high, and I would suggest five years is quite high enough—that they were getting protection for five years and if at the end of that time they left the forces they could elect to continue and go on paying monthly or quarterly for the rest of their lives or otherwise would lose what they put in. Do you think it is conceivable that if the men understood that they would be in favour of it?—A. I can only say that all of these facts were stated in the memorandum to the troops. They were all there and that is the basis on which they accepted it.

Q. Do you know how these contacts were made with the troops?—A. I do not know in detail how they were made. I presume it was through the commanding officers.

Q. Who communicated with whom?—A. We communicated, as would be the normal course, with the commanders of the commands and they then circulated it down through the men.

Q. At Borden, for instance, who would you communicate with?—A. The general officer commanding the central command who would then communicate with area command, and then out to Borden.

Q. You have no details showing how these opinions were arrived at?—A. In some cases I have details; in some cases I have not. We did not go back and ask for details as to how the opinions were arrived at. That, in my opinion, is the responsibility of the commanding officer.

Q. Can you give me any details of how it was done?—A. In one of the replies they did indicate how it was done. In prairie command they consulted 1,500 people in that command.

Q. Out of how many?—A. It would represent about 20 per cent.

Q. Did every man have a written statement of the proposal and have time to consider it?—A. I could not say that, but all the facts were there and undoubtedly he was given adequate opportunity to understand those facts.

Q. Why do you say he was undoubtedly given adequate opportunity? Can you give us any details as to how it was carried out?—A. I can say, because the C.O.'s were asked to get the information and they were given the facts, I think that I have the right to assume that a commanding officer would not ask the individual people throughout his unit to express an opinion unless he presented those facts to them.

Q. Mr. Armstrong, some of us have been in the army. Do you want to tell me that of these was a parade and some statements were made by an officer on parade and the men asked to vote? Do you mean to tell me it might be a real registration of their opinion? I am asking if there are details of how it was done and we have not those yet.—A. I say I cannot give you those details, but I said I can give you the general details.

Q. I thought you said a moment ago that you had in some cases some detail?—A. I explained that in western command there were 1,500 consulted, about 20 per cent, and these people were asked to state whether they were in favour or against.

Q. Do you know whether they were given a written statement to study?—A. I do not know. I know that the written statement was available. I do not know whether each individual was given a written statement to study or not.

Q. You sent these to the area commanders and got these statements without any detailed description of the way it was done, except in the one case you have mentioned, giving these figures you have given, and on that basis we are asked to believe that the men in the forces are anxious to have this so-called benefit?—A. I am not asking you to believe me.

Q. I believe anything you say. I am only wanting to know how far the investigation went.—A. I may say on the basis of this information we were satisfied in the department that the majority of the people in the armed forces wanted this plan.

Mr. PHILPOTT: I am surprised at Mr. Macdonnell who used to be a very efficient staff officer of a unit in which I was, and I think in those days, 30 years ago, if he had sent down a request to the unit in which I was I think we would have been able to grapple with that problem as to whether or not the men in our unit believed in the insurance, and I do not think he would have had us parade the army by numbers.

Mr. MACDONNELL: Do you mean to say in the case of a man 17 years of age who was reported as wanting insurance that it was made clear to him that when he leaves the army say in four or five years he loses all his money unless he elects to remain on the plan and pay instalments for the rest of his life? Commonsense tells us it is not so.

The CHAIRMAN: Why would not a man in the armed forces take this when he is covered in battle? That is what would appeal to him. If they were told: lads, you are covered in battle, they would jump at it. So would I.

By Mr. Johnston (Bow River):

Q. Mr. Armstrong speaks of sending out a memorandum to the services. Do you have a copy of that memorandum you could give to the committee?—A. I have a copy of the memorandum. It was sent out in code. For security reasons it is not available but I could do something as an alternative which if it is acceptable to the committee will give them identically the same information. I can paraphrase it and give it to you.

Mr. PALLETT: No, No.

Mr. MACDONNELL: Would Mr. Armstrong repeat that?

The WITNESS: I said that I could paraphrase it and give it to you. Coded messages are not normally passed out.

Mr. FLEMING: There is no problem in security in giving it to us.

The WITNESS: Only because it went out in code.

Mr. FLEMING: You can give us a translation of the coded message.

The WITNESS: There is the problem of the security involved.

Mr. FLEMING: There is no problem involved in this here.

The CHAIRMAN: Mr. Johnston has the floor.

By Mr. Johnston (Bow River):

Q. I was about to express an opinion myself that this did not look to me to be anything of a secret nature and possibly the witness, Mr. Armstrong, could give us a translation of it without violating any secrecy or giving anything away to the enemy. It does seem to me that we should have as exact details as we could of the memorandum that was sent out so that we will be able to understand at least what information the officers in charge of the units received. Now, I think Mr. Armstrong said he would give us that. Is this for the record, Mr. Chairman? What is the answer?

The CHAIRMAN: The document will be presented here.

Mr. JOHNSTON (*Bow River*): The document?

The CHAIRMAN: The document will be paraphrased. It is obvious that if you got an exact document, someone would be able to break the code which is in existence. So what you will get will be the full details without using the exact words. I think that is fair enough. Mr. Armstrong has been in the habit of presenting such matters to committees.

Mr. PALLET: But this type of message is not sent out under code, is it?

The WITNESS: The reason it was sent out under code was that it was marked "confidential" because it had to deal with pending legislation, and the commanding officers were instructed to circulate it only within the services themselves.

By Mr. Johnston (Bow River):

Q. When did you send out that memorandum?—A. This went out on April 2.

Q. You say it went out on April 2. Well, this is June 3 now. Was the information given by you this material you are speaking of that you sent out to the armed forces?—A. This material which I sent out was based upon the material I received from the Department of Finance as to the content of the group insurance and death benefit plan.

Q. When did your officers in the field translate this code and give it to the men?—A. It would be translated immediately upon receipt.

Q. And then it was given out publicly to the men?—A. It was given out in some cases to the men publicly.

Q. I do not suppose you could answer the question, but why could it be made public to the armed forces and yet not to the joint committee held in Ottawa since they were told: "You have got to keep this a secret." It was only about a week ago that they were permitted to say anything about it.—A. I cannot answer that. I can only say that we had permission to circulate it to the armed forces.

Q. You must admit that it does seem rather strange.

The CHAIRMAN: I do not think it was strange. They had permission and that was that.

By Mr. Johnston (Bow River):

Q. You were given permission to make this public to the armed forces?—

A. That is right. And in the discussions which took place leading up to the consideration of the death benefit plans for the armed forces the conclusion of the people concerned in personnel matters at headquarters, was that this was a good thing for the armed forces, but that they were not prepared themselves, to express, without consultation, with their unit commanders; and some groups of the troops whether or not it was acceptable on a compulsory basis. We were given permission to do this, to make it available to the members of the forces.

Q. It would be making it public?—A. Making it available just to the members of the forces.

Q. Well, I assume that is making it public.

The CHAIRMAN: It seems that few others knew about it.

Mr. JOHNSTON (*Bow River*): Are we going to quibble over whether he was still confining it to the armed forces?

The CHAIRMAN: It was just the armed forces, as far as he was concerned.

Mr. JOHNSTON (*Bow River*): I say that it was being made public and yet here we are with the joint commission organization connected with the civil service, and they were told: "You must not breathe a word about it; this is very secret."

The CHAIRMAN: We will argue that out later.

Mr. JOHNSTON (*Bow River*): Will Mr. Armstrong make the memorandum available to the committee?

The CHAIRMAN: Yes, he will. Very well, Mr. Hellyer.

By Mr. Hellyer:

Q. I have a couple of questions. Were the armed forces previously allowed to buy insurance under the civil service insurance Act?—A. Commissioned officers in the regular forces who had a permanent commission were allowed to buy insurance.

Q. And is that insurance good when they are in a field or on active service in action?—A. Yes, it is.

Q. We are making, or supposed to be making available substantially new benefits to the members of the armed services?

The CHAIRMAN: No comments at the moment, please Mr. Hellyer. We will have the comments when we come to deal with the sections of the bill. Are there any more questions? Now, Mr. Noseworthy.

By Mr. Noseworthy:

Q. I wonder if the witness is prepared to tell us whether this scheme originated in the first place as a scheme for the benefit of the armed forces or as one for the benefit of the civil service.—A. In so far as the armed forces are concerned we adapted to the needs of the armed forces a scheme that was designed for the civil service. It originated with the civil service and not with the armed forces.

Q. It was designed originally for the benefit of the civil servants and then extended to the armed services. Is that the situation?—A. That is right.

By Mr. Hellyer:

Q. Were payments made to the widows of members of the armed forces equal to 2 months salary?—A. Yes, but not precisely equal to 2 months salary. There is what is called the interim allowance which is payable to the widow during the 2 months following the death of the member of the forces.

Q. Is that applicable to all ranks?—A. It is applicable to all ranks, and it is made up of 15 days pay per month, plus the married allowance and the separated family allowance; yet it does not equal 2 months' salary.

By Mr. Noseworthy:

Q. Were the members of the armed forces who were consulted by their commanding officers given an opportunity of saying yes or no, whether they accepted or rejected it, or were they given any opportunity of expressing an opinion?—A. They were asked to say yes or no. Some expressions of opinion were given, but we considered this very carefully and we felt there was only one way to do it and that was to present a specific plan and to say: "This was available upon a compulsory basis or not at all." Because any other change would alter all the other factors; so we had to give them something specific.

Q. Were modifications not made in the original terms of the scheme as a result of the survey made in the armed forces?—A. None.

Q. You say there were none?—A. Not as a result of this survey at that time. We presented to them the terms which are in effect in the bill which you have before you, or a summary of those terms.

Q. Are you in a position, or are you able to say how many members of the armed forces will be covered by this scheme?—A. 110,000 approximately.

Q. You say 110,000 approximately; just who is involved in that 110,000?

Mr. HUNTER: Do you want their names?

The WITNESS: All members of the regular forces.

By Mr. Noseworthy:

Q. All present members?—A. That is so; the only people in the services who would not be covered would be a very small number of people who may be called up for a period of duty from the reserve forces, and who would be serving perhaps for a year or so. They are not under this plan. It is only for the people who are members of the regular forces, and they are all covered.

Q. Any of those members who are now in the regular forces will have, under this bill, an opportunity of continuing this insurance after they are released from the forces?—A. On the same terms as the civil servants; provided they have had 5 years service at the time they are released, they may continue.

Q. Can you tell us how this insurance which will be available to those in the service at the present compares with the insurance which is now available to veterans of previous services such as the first and second world wars? Have they anything comparable to it?—A. Well, I do not know very much about this field because I am not an expert in it.

The CHAIRMAN: He is not an expert in this field.

Mr. NOSEWORTHY: Perhaps we can get that from another witness.

The CHAIRMAN: Yes, if you consider that it is important at a later date. Now, Mr. Pallett.

By Mr. Pallett:

Q. I gather you were the one person in the Department of National Defence who was responsible for disseminating this information to the troops at your level. Is that correct?—A. No, that is not correct. The people who are responsible for disseminating this information are the personnel heads in the services.

Q. I mean at your level.—A. At my level, I am on the staff of the deputy minister, and one of my responsibilities is that of pay and allowances and other personnel matters. Therefore I am responsible for matters of this kind.

Q. Therefore, you were the person who passed out this information from your department to the army?—A. That is right.

The CHAIRMAN: You mean to the forces.

By Mr. Pallett:

Q. To the forces, I should have said. Do you recall from memory the actual wording of the message which went out?—A. I have that message right here. I do not need to rely upon my memory. I can tell you what is in it without quoting it precisely.

Q. What is the particular objection to quoting it?

The CHAIRMAN: We have already considered that, Mr. Pallett. The chair suggested that it will not be quoted precisely but that it will be paraphrased. I think you should accept that suggestion and let him continue.

The WITNESS: I am prepared to go ahead and explain it.

By Mr. Pallett:

Q. Will you please carry this message from the time it leaves you to when it gets to the units to which it is being sent, or to the area commands; is it then paraphrased or quoted precisely?—A. To the troops?

Q. Yes.—A. I assume that it would be quoted precisely although I would not say that would be so in every case. But I think it would be.

Q. Then, what is the objection to quoting it precisely to us, a committee of parliament, when you say it has been quoted precisely to the troops?

The CHAIRMAN: Because this record is available to everyone. That is the difference.

Mr. PALLETT: Then there was nothing written which the troops could read.

The WITNESS: Of course. But this is confidential and if we are instructed to treat it as such, and if the instructions are followed, then the message could not get out of the hands of any member of the forces.

Mr. HUNTER: Ah!

The WITNESS: Now, if you are interested in the message, we started out by saying that a study is being made of a compulsory group insurance plan for members of the armed forces; and then we set out under certain headings the people to whom it would apply. First of all, we simply said that it would apply to all members of the regular forces; and then we said what the amount of the insurance would be, that it would be \$5,000 for warrant officers and officers of commissioned ranks; and \$3,000 for all others. We then stated what the premium rates were, 40 cents per \$1,000, in order that it would be certain that there would be no misunderstanding of this perhaps rather important feature, we stated it in monthly terms with the amount of the insurance that the members of the forces have, up to staff sergeant, and that they would pay \$1.20 a month, while warrant officers and commissioned officers would pay \$2 per month.

We stated that the government would make a contribution of approximately $\frac{1}{3}$ of the premium paid by the member of the forces and we advised at the same time that that contribution would involve cancelling the interim allowances for 2 months which are now paid on the death of a married soldier.

We also advised that the premium rates would be subject to review at 5 year intervals and that they might be increased or decreased depending on the mortality experience.

We explained what risks were covered by stating that the death of a participant in the plan would be covered by a benefit both in peacetime as well as in wartime; and we emphasized that by saying that this would include death arising out of flying accidents and so on because we felt that this was an important point.

We stated that there would be preferred beneficiaries, the preferred beneficiaries being those people to whom benefits would be payable under the Defence Services Pension Act, but if there were no preferred beneficiaries benefit would be payable to the estate. We also advised that the form of the benefit would be a lump sum payment with the option of an annuity for a limited number of years. We advised in respect to the arrangement after release from the service that the participant in the death plan who had five or more years service at the time of release would have the option of continuing under it, but if he accepted that option he would pay the full premium rate which would be 48 cents plus an amount to cover administration costs. We were not able to say what the amount would be at the time. Finally, we advised them that the insurance would decrease by 10 per cent a year commencing at age 60 and we emphasized that by saying there would be no insurance coverage after age 70. We then said the death penalty plan had been worked out on the basis of compulsory application to all members of the forces and it was only available on that basis. Then we asked to be advised if the compulsory feature of the plan was acceptable to the members of the forces, and we stated in arriving at that decision it was essential that an expression of opinion from a good cross section of the units and establishments within each command be obtained. Lastly, we pointed out that this related to proposed legislation and should be treated as confidential until a public announcement was made. Now, I think I have told you everything that was in the coded communication.

The CHAIRMAN: Mr. Pallett?

By Mr. Pallett:

Q. It was required that this information be treated as confidential even down to the lowest level of the various forces?—A. Each member of the service having been instructed accordingly would have treated his piece of paper with these facts on it as confidential and would not allow that to get outside the service.

Q. And therefore they were unable to discuss it with their wives?—A. I would say that we would be reasonably safe in assuming he was able to discuss it with his wife.

Q. I tried to make notes of the figures on the return, but I am not sure I have them down correctly. You said the air force was 75 per cent to 90 per cent in favour of it?—A. I said those that reported on a percentage basis were 75 per cent to 90 per cent in favour. Two of the commands in the air force reported back on a non-percentage basis. One command reported: "A great majority in favour" and the other "majority in favour." Those percentages apply to those commands who expressed it in percentage terms. They all did not do that.

Q. And the navy, chief petty officers and above, were 75 per cent in favour?—A. Yes, and below that 55 per cent to 60 per cent.

Q. You answered a question of Mr. Noseworthy's, and said your communication should be answered "yes" or "no." Am I correct in saying that 10 per cent to 25 per cent of the air force said "no," navy chief petty officers and above, 25 per cent said "no"; and below chief petty officers, 45 per cent said "no"?—A. I think that is a correct assumption. That percentage would be against compulsory insurance.

Q. When you say "nearly half" that is approximately according to this survey the number who would object to a compulsory plan?—A. I think that is a fair conclusion.

Q. What percentage of the navy is below chief petty officer?—A. Let me see—do you just want a guess?

Q. Yes.—A. I would say about 75 per cent to 80 per cent.

Q. And that is a "no" answer?—A. No, not a "no" answer.

Q. 45 per cent of the 75 per cent to 85 per cent returned a "no" answer?—

Q. Yes, the majority of the 75 per cent to 85 per cent were in favour. What I am saying is that the majority were in favour.

Q. But in reply to a question asked by Mr. Noseworthy you said they were asked for a "yes" or "no" answer. You said 55 per cent said "yes" so I assume the rest said "no"?—A. Yes, I think that is a correct assumption.

Q. You have no figures as to the army?—A. I do not have percentage figures as to the army. The commands report a majority in favour.

Q. Can you also answer this question, Mr. Armstrong? What percentage of the services actually see any action?—A. Well, that is almost impossible to answer. I just could not answer.

Q. Would it be more than 5 per cent?—A. I do not have any idea. It depends entirely on the conditions. It may be 100 per cent.

Q. Say in the history of the Canadian army from 1939 to 1954, which was a fairly active period?—A. I could not give you an exact answer. My guess would be a good deal closer to 100 per cent than the figure you suggested.

Q. I am talking about active combat?

The WITNESS: I frankly do not know the percentage.

The CHAIRMAN: Mr. Fleming, have you some questions?

By Mr. Fleming:

Q. I followed your paraphrase, Mr. Armstrong, as best I could. Will you correct me if I am wrong in saying that the directive did not specify the manner in which its content should be communicated to the men in the forces, as to whether or not it should be done orally.—A. No, the directive merely asked that a good cross-section of opinion be obtained from units and establishments. It did not say how it should be done.

Q. The method of communicating the information which you supplied was not contained in the directive?—A. No, there were no detailed instructions as to how this should be done.

Q. Now, as to your replies, how many did you receive altogether?—A. Well, we received a reply from the two brigades in Europe and from the five commands in Canada and the division in France, the joint staff in Washington, the joint staff in London, and the air defence command, the air training command, and the air materials command. I think that is about all. And then, of course, the navy—I am not sure how many individual replies were received. My report on the navy was the summary which I gave to you, but I do not have the actual individual replies that came from the naval service itself.

Q. Have you received replies from all the commands to whom this directive was issued?—A. Yes.

Q. For what period did you receive them? When did you receive the first and when did you receive the last?—A. They began to come in a week after the message went out.

Q. And the message went out on April 2nd?—A. Yes, and by the end of that week I think we had them all—by the end of the following week, I mean.

Q. So you would have had them all by approximately the middle of April?—A. Yes.

Q. You have indicated that one or two replies indicated something of the extent of the sample. Can you be specific about that and tell us how many replies indicated the number of men whose opinion had been taken?—A. There were two, the Prairie Command—the one I referred to before—and the Quebec Command, where they indicated that they had the opinion of 3,500 people which would represent about half the people in that command.

Q. So that all you know definitely, Mr. Armstrong, about the numbers who were consulted is in the case of those two commands and in the case of the western command the number consulted was approximately 20 per cent and in the case of the Quebec Command approximately 50 per cent?—A. Yes.

Q. But as to the other commands do you know the percentage consulted?—A. No.

Q. And the directive called for a sample of opinion?—A. The directive called for a good cross section of opinion.

Q. It was left to the area commander in each case to determine what is a good cross section?—A. Yes.

Q. You did not stipulate?—A. No, we did not stipulate how much.

Q. I think we can appreciate the limitations of a "yes" or "no" answer. You would not expect anyone to draw an inference, Mr. Armstrong, as to what could be wrong, by way of inference, from these results as to the feeling of those consulted, if they had been given the opportunity of choosing between a compulsory plan and a plan that was not compulsory.—A. It would be quite a different question.

Q. Quite.—A. We did not ask them that.

Q. And I think you will agree no one could draw any inference as to the feeling of the men as between two such schemes as to what was done here?—A. No, I would agree that you cannot draw that inference.

Q. In the case of these returns which give percentages, how many replies gave figures upon which you based the percentage figures you have quoted concerning the air force?—A. There were four, as I recollect.

Q. That, I gather, is a minority of the replies from the air force?—A. No, I think that would probably be a majority.

Q. I was taking a note of the commands you referred to and I think we got up to somewhere around a dozen.—A. I have just checked the record and there were five out of eight.

Q. Five out of eight? And were you given the figures? Did you compile this percentage?—A. No, I did not compile this percentage. This was the percentage as advised by the command. They said approximately 85 per cent would be in favour. I did not compile it.

Q. I am wondering how anyone compiled the 75 per cent to 90 per cent? Do I understand that 75 per cent was the low figure in one case and 90 per cent was the high figure in another case?—A. That is right.

Q. These are the brackets, high and low?—A. They are the range.

Q. In the case of the navy, from how many replies are the percentages taken?—A. As I say, I have not the detailed number of replies that were given to the navy. These presumably would be greater in number, because of the rather small divisional establishments across the country. There might be, I would guess, a dozen replies to the navy, but unfortunately I have not those details.

Q. You do not know how many gave you information on a percentage basis of the navy establishments?—A. All I know is that the navy people here, having got those replies and analyzed them, indicated that 55 to 60 per cent of the people up to petty officer rank were in favour, and in the range of 75 per cent of officers and C.P.O.'s were in favour.

Q. I am interested to know how they arrived at that, as to the number of replies that came to them, with percentages or with figures?—A. I would have to examine the details. I cannot answer that question, unfortunately.

Q. In the case of the army, do you know how many replies gave no figures?—A. Only the two I mentioned. The others simply reported the majority in favour.

By Mr. Johnston (Bow River):

Q. I want to go back to a question I asked Mr. Armstrong when I was speaking to him. I asked you how this information was given to the men, and I think you said that this information was translated to the armed forces. I asked how, then, it was made public. You were insistent that it was given to the armed forces. Do you recall that—A. Yes.

Q. Now you are giving a correction to that, that it was not given to the armed forces, it was given to a cross-section. Which is right? There is a big difference, is there not?—A. Perhaps there is a slight misunderstanding there. What I was saying was that the information we prepared was circulated to the people in the forces. I do not wish to imply that every single member of the armed forces got a copy of this document, because that is not so.

Q. It went to the commanding officer in charge and he went to certain individuals and told them about this and then they got their opinions that way?—A. I do not know how the commanding officer did it. He was asked to get a cross-section of opinion. We did not tell him he had to do it in a certain way. That was his responsibility, and I do not know the precise way in which it was done. I would think that there would be a considerable variety of ways.

Q. It was not given to the armed forces in the manner in which you indicated at first?—A. I think that is true.

Q. I have one other question. You said a moment ago that this information was sent out confidentially. It was so indicated in your code?—A. It was marked "Confidential" on the wire and we explained the reason why it was confidential, because it dealt with legislation that was pending and had not yet been presented to the House of Commons. We simply explained that it should be treated as confidential for that reason.

Q. Could you give us an indication of the percentage or how many of the personnel were contacted? That is, in this confidential way? 75 per cent or 80 per cent?

The CHAIRMAN: That question was asked by Mr. Fleming.

Mr. JOHNSTON (Bow River): If this was to be kept confidential and it was so indicated by code to the officers of the armed forces, is it reasonable to expect that it would be kept confidential if you were making it available to at least 80 per cent of the forces? Would you consider that to be kept confidential?

The WITNESS: I would think that there would be very considerable risk that it would not be.

Mr. JOHNSTON (Bow River): I would agree with you.

The CHAIRMAN: We will have Mr. MacGregor.

Mr. MACDONNELL: You have had us here three hours.

The CHAIRMAN: I have not had you here. I am here also. If I have to sit in the House of Commons listening I might just as well sit here and do something.

Mr. FRASER (Peterborough): Do you mean to say that we do not do anything in the House of Commons?

The CHAIRMAN: "Listening" is what I said. We have two witnesses, Mr. MacGregor and the deputy minister. If you are too tired to deal with the bill tonight, I will listen to suggestions as to when to sit. I thought we would sit now so that we would not have to sit tonight. Perhaps you wish to sit tonight.

Mr. PHILPOTT: Let us finish with the witness now and not sit tonight.

Mr. MACDONNELL: If you think we can finish now.

Mr. JOHNSTON (Bow River): I move that we finish with the witness now.

The CHAIRMAN: Let us try. I am sorry, Mr. Armstrong, I did not thank you for coming on such short notice.

Mr. K. R. MacGregor, Superintendent of Insurance, called:

The CHAIRMAN: Mr. MacGregor is the Superintendent of Insurance. Probably some of you would like to ask for information on insurance.

Mr. FLEMING: Is he going to make any statement?

The WITNESS: Mr. Chairman and hon. members, I am not sure what particular features you may wish me to comment upon so far as this bill is concerned. I am in the hands of the committee. I shall be glad to answer questions as far as I can; or perhaps you would like me to outline the history of the existing scheme, the Civil Service Insurance Act.

Mr. MACDONNELL: I think there is one thing. There have been definite statements made about comparative rates, and it seems to me that it would be wise to hear from him about that.

The CHAIRMAN: Mr. Philpott has asked a few questions with that in mind.

Mr. PHILPOTT: This morning sitting beside me was a professional life insurance agent who said that the lowest rate for a group insurance policy similar to this would be 90 cents per thousand. The rate under this bill is 40 cents per thousand. Are those rates approximately correct? Under this bill the rates are 40 cents per thousand.

The WITNESS: First of all, perhaps I might comment briefly upon whether it is reasonable to assume that the government could operate this scheme more economically than companies. Then I might comment, Mr. Philpott, upon the rates the companies charge for group insurance and so on. I would say in the first instance that there is intense competition in the group insurance field amongst the registered companies in Canada and that the business of group insurance is carried on by registered companies in a very efficient manner. Consequently, the question may be asked whether it would not be better to let the companies run this scheme. Why can the government expect to operate it more economically? The main answer to that question is that the government now has a very comprehensive superannuation scheme and has all the necessary set up to administer it, and the additional machinery necessary to operate this scheme of death benefits would be relatively small. If the companies were to operate it, it would involve in the main setting up duplicate records in the hands of the companies. There would be additional cost involved. That is the main reason why the government can expect to operate this scheme more economically as regards expenses.

Turning to the rates charged by insurance companies for group insurance, it should be understood that group insurance rates vary considerably amongst the several companies. The rates charged in any particular case may vary a great deal. The rate charged varies according to the size of the group. A large group is proportionately cheaper to administer than a small group. The rates vary according to the age distribution of the people covered. The rates vary by the occupations of the people concerned, and they vary according to the benefit formula. When does the insurance terminate and is there a disability benefit included, and what is the maximum amount of insurance as compared with the average? All these things affect the average premium rate. Perhaps it would give you some idea of the relative rates charged by the insurance companies for group insurance in Canada if I were to indicate the average rates charged by them in 1953.

Before doing so, however, I would make this comment, that the initial rate of premium charged by the insurance company is only the beginning of the story. Every group insurance policy either provides for dividends or it has what is called an experience rating provision which amounts to the same thing. In other words, it is the net premium or the net cost, after the dividend or after the experience rating provision has been applied, that really counts,

because that is the net cost of the scheme. In 1953 the average gross premium charged by two of the largest group carriers in Canada was about 85 cents per month per thousand. The average net premium after dividends or after allowing for the experience rating provision was about 70 cents per month per thousand in the same two companies. In quoting those average costs, it must be remembered that in some groups the average cost is far higher and in some groups it is far lower. I could cite particular groups where the average net cost is very considerably lower than that.

Mr. FLEMING: How much?

The WITNESS: I have in mind one group covering the employees of an aircraft company, about 10,000 employees, which includes what is called the instalment disability benefit. The face amount is paid in instalments in the event of permanent disability as well as in the event of death. The average gross premium per month in that case was 75 cents, the average net premium was 50 cents, and if one excludes the cost of the disability benefit the net cost was about 45 cents per month per thousand. I have in mind another large public utility with about 14,000 employees, with no disability benefit, where the net cost was 42 cents per month and an oil company covering about 5,000 employees where the average net cost, excluding the disability benefit, was about 47 cents.

The CHAIRMAN: Have you a few of the high ones?

The WITNESS: No, I have not, Mr. Chairman. A group covering a chain of grocery stores had a net cost around 35 cents. A group covering an electrical manufacturing industry involving nearly 10,000 employees had a net cost of roughly 25 cents. All of these figures exclude the disability benefit. Consequently, one may easily see that the average costs vary a great deal, and that is easily appreciated. Take for example a five and ten cent store; just a casual glance around will show that the average age is likely to be pretty low; so also in a chain grocery store.

By Mr. Philpott:

Q. Apart from the fact that there is a certain saving on this scheme because the government has facilities for carrying most of the overhead cost, the rates now would be 40 cents as compared to approximately 70 cents or over for any comparable private scheme. 40 cents plus your government contribution.—A. The proposed rate of contribution under this bill is 40 cents per 1,000, but including the contribution of the government it would be about 48 cents.

Q. I am not talking about the total cost to the treasury of Canada, but the cost to the insured person. That is 40 cents a month under this scheme as compared to approximately 70 cents or over under any other scheme. Is that right?—A. No. Because, the average cost of 70 cents that I quoted includes a great many small groups as well as large and average sized groups, and for the small groups the cost is higher.

Q. Is higher?—A. Yes. May I interject too that that 70 cents figure naturally includes provision for all the administrative expenses which the company must bear, including taxes, etc.

Q. Now, supposing we are able to change one section of this bill, instead of having the totally compulsory feature we now have which gives us the 40 cent rate, supposing it was optional and instead of having 230,000 people insured, 50 per cent were signed up or 115,000. What is the estimate of what the extra cost would be?—A. I would hesitate, Mr. Philpott, to even hazard a guess. In the first place you are apparently combining the armed forces with the civil service. In group insurance schemes administered by the companies the usual rule is to require that at least 75 per cent of all eligible employees be covered. It would be a very difficult task, in my opinion, to conduct a thorough

survey of an organization like the civil service spread across Canada and be sure that the employees really understood what was being put up to them; and even if they did understand it, it takes a bit of selling to sell insurance. Looking at the field generally, if it were not for the life insurance agent the volume of insurance sold would be very very much smaller than it is. People have to be convinced and have to be sold insurance.

Q. I can agree with that because I remember being sold a group insurance scheme a few years ago and I have always been glad I was, but what I am trying to get is this. Supposing we took such a survey and only 50 per cent of the civil servants decided to come in. That would amount to 115,000. With that rough estimate what would the extra cost be to each person?—A. If only 50 per cent decided to come in, I would say that it would be completely impractical to have the scheme at all.

Q. So if only 50 per cent decided to come in we might as well wash it out? —A. Absolutely.

Q. Thank you very much.

The CHAIRMAN: Now, Mr. Fleming.

By Mr. Fleming:

Q. In getting at a fair basis of comparison, if there is any fair basis of comparison with the figures which you have quoted, I take it that the figure we should start from with respect to this proposed government scheme is that of 48 cents per 1,000.—A. Yes, excluding expenses.

Q. And not 40 cents, if we attempt to compare it with any figures which are comparable to it.—A. That is right.

Q. You laid stress on the importance of the size of the group in referring to the insurance companies. May I ask if any group in Canada has ever been insured with an insurance scheme as large as the group contemplated here of 230,000?—A. None that I can recall.

Q. What is the largest group that has ever been insured in Canada in a group insurance scheme?—A. I would think it would be a group of the order of 15,000.

Q. So we are dealing here with a group that is about 15 times—in fact, more than 15 times larger than any group that has ever been insured in a group insurance scheme in Canada heretofore?—A. It is of a different order entirely.

Q. We are getting into a different field altogether, and I think it is fair to say that there is no basis of comparison to help us here at all, is there, Mr. MacGregor?—A. It is extremely difficult to make any valid comparison.

Q. And if you take the largest group of any existing group insurance scheme in Canada and increase it 15 times and over, the inevitable effect would be to reduce the cost of the insurance scheme per person, would it not?—A. Yes, it would.

Q. Can you tell us the number who are insured in some of those schemes to which you referred when you gave us the cost?—A. I quoted the number in some cases but not in all. I should say, off-hand, that the number covered in the cases which I cited would range from about 4,000 to 14,000.

Q. May we take it that so far as experience in the group insurance field extends, that it is evident that if any existing private company should go into this field, a field of 230,000 persons, that they are going to be able to offer rates which are very much below any rate which exists in any group insurance scheme in Canada thus far?—A. I think they would probably be willing to quote what would appear to be an attractive rate for the civil service, but I think their attitude would probably be quite different with respect to the

armed forces; there are some risks, Mr. Fleming, that the government may properly assume such as unemployment, war risks, and so on, that the private companies should not assume in fairness to their other policy holders.

By Mr. Fleming:

Q. I can appreciate the fairness of that observation; but has any insurance company been asked whether it would be prepared to quote figures on the present scheme embodying or including the armed forces on the one hand or, on the other hand, including only the civilian employees and excluding the armed forces?—A. No request has been made, to my knowledge, with respect to either the civil service alone or the civil service and the armed forces in combination. On the other hand, it is correct to say that the companies have offered to consider the possibility of underwriting the civil service, but no figures were mentioned or any definite proposal made.

Q. How recently were such offers made?—A. Oh, I would think in March or April probably.

Q. And without asking you for the names of the companies, how many companies, offhand?—A. The communication that I have in mind was one on behalf of the companies as a whole, not on behalf of any individual company.

Q. I suppose, naturally, for a group this size there would be an arrangement made for co-insurance—A. Well, briefly, the situation was this: when the Canadian Life Insurance Officers Association became aware that the government was considering a scheme of this kind, they offered their facilities and services to the government; but no definite proposals were made, or any rates quoted, or anything of that kind. In fact, they were not in a position to quote any rates because they had no data on the services.

Q. It would involve a study to determine a definite rate, naturally, and I take it from your answer that the companies have not been asked whether or not, in the circumstances, they would be prepared to include the armed forces in any group insurance scheme which would include the civil service as well?—A. No.

Q. One final question: what study has been applied to this scheme to determine its actuarial soundness? How do we know that the payments which are proposed will meet the total of death benefits provided for?—A. As I mentioned, in company practice it is customary to charge a rate which is known to be on the safe side, and then to make a refund either through dividends or experience rating. In this case it was deemed necessary to make the closest possible estimate; and the main data that we used were the experience under the scheme of gratuities in the civil service. I am speaking now of the civil service under section 56 of the Civil Service Act. In addition, we availed ourselves of the valuation data we had for use in connection with valuation of the civil service superannuation fund at the end of 1947. We also had available to us data relating to some large industrial pension schemes and also a scheme relating to provincial civil servants. However, I do not wish to imply by those remarks that we had all the data we would like to have had. I should make it quite clear, I think, that the 40 cent rate proposed as respects employees is, properly speaking, an experimental rate, and may have to be adjusted upwards or downwards. I believe it is a reasonable rate under the circumstances for civil servants and I think there is a reasonable margin of safety in it. For the armed forces, I would say there is a relatively larger margin in the 40 cents rate proposed for them. On the other hand, it is most desirable that there should be a larger margin because a much larger contingency reserve should be built up for the armed forces to cover the inevitably heavier claims which will be met in wartime.

Q. You contemplated the contingency of hostilities at some time in establishing a rate for the army?—A. Indirectly, yes, but not directly. I might complete my remarks, Mr. Fleming, as respects the armed forces. We had other data for them. We had data supplied by the Department of National Defence for each of the years from 1947 to 1953 inclusive, subdivided by sex, by branch of service,—army, navy and air force separately—and we had the deaths attributable to Korea separately from the rest. We also had a summary classification of the entire armed forces, at the end of 1953, by age.

Q. Did you superintend this yourself, Mr. MacGregor?—A. No, I did not.

Q. By whom was the study made?—A. Primarily by Mr. Humphrys, our chief actuary.

Q. In your department?—A. Yes, the work was done in our department.

The CHAIRMAN: Did you have a question, Mr. Macdonnell?

By Mr. Macdonnell:

Q. Yes, I just have one question. You have given us some very interesting comparative figures as between the company and the government schemes. It has been said that this proposed plan is different in several ways from ordinary group insurance. Would that be a fair statement?—A. Yes, that is substantially correct, Mr. Macdonnell. It is necessary in this case to keep the average cost of the coverage very low because the government is contributing only one-sixth of the cost. One cannot operate a group scheme successfully if the average premium charged employees is higher than a person in the lowest age group can get insurance elsewhere himself. Consequently it is necessary to adopt a benefit formula that will keep the average premium low. I might make a good many remarks, perhaps, on some features of group insurance which have arisen here.

Q. You might just point out the chief ways in which this differs from the typical group insurance plan.—A. The amount of insurance, more particularly in the higher salary brackets, is lower in this case. The usual rule is to restrict the amount of group insurance to about one year's salary, but usually there is a higher upper limit, perhaps \$15,000; in this case, the ceiling of \$5,000 naturally keeps the average cost down. As respects the conversion privilege, it is customary in policies sold by companies to provide that an employee terminating service prior to the retirement age will be offered a regular life insurance policy at standard rates. That conversion privilege is quite expensive. The cost of it may run from two to three per cent of the premiums charged for the group plan. It is customary in most group insurance policies sold by companies to include a disability benefit of some kind. It is customary in most group schemes for the employer to pay a larger relative proportion of the total cost. The maximum contribution from employees is never set at more than 60 cents per thousand per month. In some cases the employer bears the whole of the cost. In many cases he bears half. Most plans are written on the contributory basis where the employee pays something. I think that those are the main differences.

By Mr. Fraser (Peterborough):

Q. I just wanted to ask a question in regard to plans for payment under group insurance policies of companies. They do not diminish after 60 years; they go to the full life in many cases?—A. Coverage usually terminates at the retirement age.

Q. At 65, for the full amount?—A. Yes, and nothing thereafter.

I should like to make a comment at this point on grading down the benefit between the ages of 60 and 70. It may not be generally realized that the civil service insurance scheme that is now on the books and has been on the statute books since 1893 started as a part of our superannuation scheme

in 1893. There were two companion measures. The Superannuation Act provided benefits only for the employee himself and there was no dependents' coverage. The Civil Service Insurance Act in 1893 was the government's way of affording facilities for civil servants to make their own provision for their dependents. True, it was voluntary. I might say, however, that in the debates, both in the House of Commons and the Senate, there were many laments that the insurance scheme was not to be compulsory. That is the background of our present Civil Service Insurance Act. It was, from the beginning, part and parcel of our general superannuation scheme. The Civil Service Insurance Act was amended on two occasions, the maximum being raised from \$2,000 originally to \$10,000 in 1920. But I would mention this important point: from the time that the present Superannuation Act was passed in 1924, being the time when dependents' coverage was first introduced into the superannuation scheme, there have been no amendments at all to the Civil Service Insurance Act; from that point, it may fairly be said that the *raison d'être*, so to speak, of the Civil Service Insurance Act faded. Representations have been made to continue the Act or to enlarge it, and those representations are quite understandable. I would say, however, that personally I think it is unsatisfactory for any employer, government or other, to attempt to operate a scheme of individual insurance policies. In the first place, the industry is well organized to offer all the necessary facilities, but apart from that, if an employer offers an individual scheme at less than cost, then he is likely going to deal unfairly with his employees, because only those who are insurable and have the means can take advantage of the insurance, and that is really the situation in respect to civil service insurance today. Only those who are insurable and have the means to take advantage of it can derive the benefit of the government subsidy in that scheme.

The CHAIRMAN: Are there any further questions?

An Hon. MEMBER: Yes.

The CHAIRMAN: We will adjourn till eight o'clock tonight.

EVENING SESSION

8.00 p.m.

The CHAIRMAN: Gentlemen, when we adjourned at six o'clock Mr. MacGregor was in the process of answering a question, I suggest that you continue, Mr. MacGregor.

Mr. K. R. MacGregor, Superintendent of Insurance, recalled:

The WITNESS: Mr. Chairman, at adjournment I was referring briefly to the original place of the civil service insurance in our scheme of superannuation, and I mentioned that the justification for that scheme largely disappeared with the introduction of dependents' benefits in the Superannuation Act in 1924. However, as is probably well known, dependents' benefits under the superannuation scheme are graded by length of service and consequently are very small in the early years of service, and increase as the duration of service increases. Consequently, the present scheme of death benefits is quite obviously designed to supplement dependents' coverage by providing a reasonable floor of coverage more particularly doing those early years of service when the regular dependents' coverage under the Superannuation Act is small. That fact also provides considerable justification for grading down the supplementary

death benefit at the higher ages where the dependents' coverage is substantial under the Superannuation Act. Another reason for grading down the coverage is, of course, the very practical one to keep the costs down; and a third one is to avoid an arbitrary break in coverage which is generally undesirable.

I do not know what other points honourable members would like me to deal with in particular, but I should like to comment on the representations that have been made to provide some leeway as to the amount of coverage. Apparently some would like to have more, and some would like to have less. I should say on that point that it is impracticable to administer a group scheme unless the benefit formula is fixed for all who are covered by the scheme. It is simply not practicable to give people under this scheme a choice as to the amount of coverage they will have because quite obviously the older people would choose more, knowing they are getting a better bargain since their death rate is higher; so also, people who feel that they are not in the best of health will take more. Both of these features tend to increase the cost very greatly. Consequently, it is impracticable to give people a choice as to the amount of coverage they will have. It is one thing to have people covered by a scheme or not, but if they are covered, they must be covered by a formula that applies across the board. This is not to say that the benefit must be the same for every person, but it must be fixed and must not be left to their choice. I mention this because it is a very important point that should be kept in mind in any consideration of options as to the amount of coverage which a person under this scheme might have.

On the matter of compulsion, I hesitate to say anything at all. Certainly I have no thought of attempting to sell the idea of compulsion. At the same time something can be said for it as well as against it. In the matter of life insurance, people are all too prone to postpone making arrangements for it. The agent fills the need in the commercial field, but too many people still tend to put off their insurance arrangements until it is too late. Of course, if the benefit is larger and the cost high a great deal can be said against compulsion. On the other hand if the benefit is very low and the cost is quite low it may be a good thing if most or all people are required to take it. Personally I think group insurance fills a great need in our insurance scheme of things, whether in the commercial field or in our superannuation scheme. But like everything else, one can have too much of it. Where people come forward with the suggestion that persons should have an opportunity to take relatively large amounts, I think that is unwise because after all group insurance is term insurance. I think it is better that they should have a reasonable amount of it and if they want more coverage they should make arrangements for permanent insurance which they may carry throughout life.

The CHAIRMAN: Thank you very much for your views, Mr. MacGregor. We appreciate it very much.

Dr. McMillan, have you a question?

By Mr. McMillan:

Q. You mentioned before the supper hour, some companies, such as the aircraft companies, and chain store companies, had a low net premium which would compare with this 40 cents. Might not that be for younger employees? —A. In every case, doctor, there is an explanation. I could cite groups where the cost is relatively high as well as the ones which I have cited where costs are relatively low. In the last instance the explanation is usually that the average age is very low or that the maximum amount is very low for the higher ages.

Q. What was the average age group taken in figuring out the civil service rate?—A. One really does not approach the problem primarily from that standpoint. One must consider the whole age distribution rather than any individual age.

Q. But you would have to take an average age, would you not?—A. You really approach it from the standpoint of looking at the age distribution from top to bottom to see what the cost will be rather than by aiming at the benefit in the middle so to speak. The rate that has been proposed of 48 cents per month including the government's contribution, or \$5.76 per thousand per year, corresponds approximately to the probability of dying in a year at age 45 or thereabouts, in the population of Canada as a whole.

Q. But not in those who became employed at 21?—A. I do not understand your question.

Q. Of those employed at the age at which they would be employed their average attained age would be greater than 45. You are talking about from birth when you talk about age 45?—A. No. I am speaking of the probability of dying in the year having regard for the proposed premium rate of \$5.76 for what amounts to one year term insurance. It would correspond roughly, I should say, to the net premium, excluding anything for expenses at about age 45 in the general population.

By Mr. Monteith:

Q. Mr. MacGregor you mentioned earlier about those large group companies you gave average figures on; 85 cents per month per thousand and 70 cents per month per thousand. Was there any other coverage than straight term life in those?—A. There was a disability coverage. The principal amount would be paid in instalments upon the occurrence of total disability the same as in the event of death. That benefit costs about 10 per cent of the premium.

Q. I was just wondering when was the first time you heard about this suggested premium of insurance at all. How far back have you been aware that something was brewing and were told to start doing a little actuarial studying on it?—A. We had representations for years from different organizations and from the forces wanting group insurance and wanting the existing scheme of civil service insurance enlarged. It certainly extends back before the war.

Q. I am considering the 48 cent rate for this bill. When did you first have any indication that you should come up with some actuarial figure as far as the 48 cent rate in connection with this bill?—A. Perhaps I might answer that by saying that the idea of the scheme of group death benefits has been under consideration for at least five years or thereabouts. So far as this particular scheme is concerned, however, I would say that the work on the computation of the premium rate for it originated sometime in the fall.

Q. It was last autumn, may be?—A. Yes, I would say so.

Q. And your original calculations had to do with the civil service only, did they not?—A. Yes.

Q. And there was no consideration given at that time to the armed services being brought in?—A. We had previously given consideration to some kind of scheme for the armed services because for some years now they have been wanting a scheme of benefits for at least non-pensionable deaths.

Q. This particular scheme of 40 cents was originally arrived at for the civil service only?—A. Yes.

Q. When did you become aware that the armed services were going to be considered in the whole overall scheme as well?—A. Well, we felt that it was inevitable that the question would arise sooner or later; I suppose it was about

February or March. It was February, probably, when we learned that it was more than a possibility and more likely to be a probability in conjunction with the present civil service scheme.

Q. And the rate has not been adjusted at all since—I mean your suggested rate has not been adjusted at all since you learned that the armed services were going to be included?—A. The rate had been pretty well set for the civil service at that time. And when it became apparent that the armed forces wanted a scheme too, we naturally called for all available data in order to compute an appropriate premium for them. As a result of our investigations it seemed reasonable to leave the rate the same for the armed forces even though we knew that there would be a relatively larger margin in those rates, assuming peacetime experience. One can only guess what the wartime experience would be.

Q. Because of the younger age?—A. Primarily so, yes.

Q. And you mentioned that there would be a greater contingency reserve there, as I understood your answer, and that there would be a greater contingency because of the younger age group in the army—is that correct—or in the services, providing that no war should come?—A. Excluding war deaths, we believe there is a relatively larger margin in the 40 cent rate for the armed forces than there is for the civil service. The explanation is mainly the one you suggest, that the average age in the armed forces is lower; also, their health, generally speaking, is probably better.

Q. Am I correct in taking this out of one of the answers you gave earlier: that if the life underwriting companies were considering this proposition, the armed services would probably come in at a higher rate?—A. Well, there are a good many difficulties in underwriting a scheme of insurance or death benefits for the armed forces even under any peacetime conditions. But in the event of war, very serious technical problems arise because something must then be done; the companies would either have to increase the rate very substantially or restrict the coverage and exclude war deaths, or suspend the scheme or something of that kind.

Q. Was I correct in assuming from one of the answers that you gave that a private company intending to come into this overall picture would consider the armed services a greater risk? I mean would there have to be a greater premium?—A. There would, if they were to include war hazards. But I do not think that private companies would be in a position to assume that risk. And if they attempted to underwrite the armed services at all, I think the only practical way would probably be to provide coverage for non-service deaths.

Q. Yes. But what I was getting around to was this: there is no possibility is there, taking it for those who are in the armed services, of the people in the civil service paying more than they should to assist in covering the other status?—A. No, because there will be a separate account for the civil service and a separate account for the armed services.

Q. I understand there will be a separate account, but what does that mean? Does it mean that eventually you might adjust the rate of either one, or both, or one at a time?—A. There is provision in the bill for actuarial review at least every 5 years, and if that investigation indicated that a lower rate for the armed forces might safely be set, then I think it would be reasonable to make some reduction in one without making any change in the other. But we have to keep in mind that if the scheme for the armed forces is to be continued in war time, it is most desirable to build up a large surplus in that fund.

Q. Yes, that is quite understandable. Well then, if private companies were, for argument's sake, to undertake a plan such as this, your present insurance, under the Insurance Act, would be done away with.—A. Well!

Q. It automatically runs out. There is no new insurance. In other words, let me put it this way: originally it was said that from an administration

standpoint, including this scheme with the government operation, it would cost very little more, in that you would be moving some employees from the present insurance set-up into this department to assist the superannuation department. Am I right in that?—A. No, that is not correct. The reason this scheme could be operated very economically by the government is because of the very comprehensive machinery that has already been set up to administer the superannuation scheme as we know it today—all of the necessary personnel records and facilities for making say deductions and for paying these gratuities and so on—the machinery for this purpose is already set up.

Q. Then, is it assumed that the present insurance department will just gradually disintegrate?—A. Well, I would hope not.

Q. I mean in regard this 1893 Act?—A. No, there is no intention whatsoever of tampering with any of the policies which have been issued under that Act.

Q. I did not mean that either. I am thinking of the administration.—A. The department of insurance would undoubtedly continue to administer the policies of civil service insurance that have already been issued and are now on the books, and they would be administered quite separately from this scheme.

Q. You would not be writing any more insurance?—A. That is correct.

Q. It is reasonable to ask you how many policies have been issued in the last year, approximately?—A. Yes, in the fiscal year from April 1, 1953 to March 31, 1954, 775 policies were issued for a total amount of \$4,741,000.

Q. Roughly, how many employees would you have in your department looking after that particular business?—A. Of course the figures I have given relate only to one year's issue.

Q. Yes.—A. We have about \$55 million of business on the books. We have 14 employees engaged full time or part-time on civil service insurance at the present time, and I would say the cost of that staff is about \$30,000 per year, exclusive of a small charge for rent.

Q. I think that Mr. Taylor intimated that there would probably be another 10 or 15 employees in the insurance department working in the superannuation part of it to look after this new Act.—A. No, there is no intention, as I understand it, for our department to take any direct hand in the administration of this new scheme of death benefits. The machinery is in the superannuation branch of the Department of Finance.

Q. Yes, I am still trying to get it clear in my mind just where the administration costs are going to be, under the new bill as compared with the present situation. Actually, it is mortuary benefits we are talking about. Your department work is gradually going to decrease, is it not?—A. Very slowly, though, because the business on the books will not decline for a number of years.

Q. But you will not have an underwriting staff?—A. That is true, but there are not very many persons engaged on underwriting.

Q. And you have not got any salesmen?—A. No; and I can assure you that we can put all of our employees to work on other duties very conveniently.

Q. One final question: are you positive in your own mind that if the private underwriting companies were asked as a group to bid on this, or to give a figure on this, that they could not do it as cheaply, or more cheaply than the figure we have arrived at here?—A. So far as the scheme for civil servants is concerned, I believe that the government, because of the existence of the machinery which it already has set up, can operate it a little more economically than the private companies could do it. If the companies were to administer it, a great many new records would have to be furnished to the companies for that purpose.

Q. But actually?—A. It would be a matter of expense.

Q. But actually we have not any adequate figures to compare with what we estimate it would cost the government?—A. No.

Q. That is all, thank you.

The CHAIRMAN: You said, "as far as the civil service is concerned." What about the other aspect of it?

The WITNESS: We have had no official discussions with the companies concerning their interest in this scheme, but because of the underwriting difficulties which would be bound to arise in the event of war I would be surprised if they would have any lively interest in that scheme at all.

Mr. MONTEITH: I have one more question, Mr. Chairman. I believe you will have to set up entirely new records for the armed forces, will you not?

The WITNESS: They have almost the same set-up in the armed forces now under the Defence Services Pensions Act.

Mr. MONTEITH: Will these records be included in the Department of National Defence or will they be in your department?

The CHAIRMAN: Mr. Taylor could answer that, he will be on the stand next. Mr. Fraser?

By Mr. Fraser (Peterborough):

Q. Most of my questions have already been answered. I just wondered if any consideration had been given to adding disability to these policies?—A. I think it would be undesirable to do so, Mr. Fraser. It would add to the cost in the first place, and secondly there is reasonable protection under the Superannuation Act now by way of benefits in the event of disability.

Q. Well, they have not the coverage under the Superannuation Act that the companies give under their policies, have they?—A. No.

Q. You do not have full sickness and accident benefits and all that which they generally give under that 85 cent one that you quoted?—A. There is no sickness or accident benefit.

Q. I thought there was under that?—A. No, but there is usually a disability benefit provided in group insurance policies. There are several kinds. One is the waiver of premium benefit in the event of total disability. The other is what is called the instalment disability benefit and in that case the face amount is paid in instalments.

Q. Some of the firms give sickness benefits along with that?—A. That is another kind of policy.

Q. It is included in the group insurance?—A. No, not in group life insurance. There are many schemes underwritten where there are group life insurance benefits and group accident benefits and sometimes they are written as a parcel, so to speak.

The CHAIRMAN: Mr. Pallett?

** By Mr. Pallett:*

Q. The policy, or whatever you choose to call it, that the civil servant will have under this scheme may be continued when he leaves the employment of the government and I understand the cost to him will be 48 cents per month?—A. No, the cost has not been set yet. Under the bill it will be set by regulation.

Q. Plus the cost of administration?—A. Yes.

Q. Have you any figure set in your own mind or have you arrived at a figure in any way as to the cost to the person who would leave the civil service?—A. It would have to be set approximately at the level charged by companies for term insurance to age 65.

Q. Could you tell the committee what that cost is?—A. Well, if you will just wait a moment we will give you an idea. If a person left the service at age 30 the premium charged by companies would be about \$10 per thousand

and I think a good deal could be said for charging about the same rate in this case. At age 40 it would be about \$14 per thousand per year, and at age 50 it would be about \$21.

Q. Would that have the disability feature in it?—A. No, it would be the premium charged for the same kind of coverage that he would have had if he had stayed under the scheme.

Q. At the age of 30 it would be a little better than double?—A. Yes. Those quotations are just an indication what the company rates would be for term insurance to age 65 and I think it would be reasonable to set them at that level.

Q. I do not know how far you have dealt with the service aspect, but in setting the basic amount at \$3,000 and \$5,000 for the service, was any consideration given to the fact that the last illness in the service is already taken care of?—A. No, we did not give any consideration to that at all.

Q. So as far as they are concerned it would be a straight death policy benefit? There is no consideration for the last illness. I understand that is already taken into consideration.—A. I am not sure that I appreciate your point.

By Mr. Pallett:

Q. In setting the basic amount at \$3,000 and \$5,000 for the service, was any consideration given to the fact that the last illness in the service is already taken care of?—A. I am not intimately familiar with the benefits payable in those circumstances.

Q. No consideration was given then, in arriving at the \$3,000 and \$5,000 figure for the services, to the fact that their last illness was already taken care of?—A. Not by our department in dealing with the proposed contributions.

Q. I have one more question. Are you able to tell us, Mr. MacGregor what the turnover in civil service personnel is? How many of these policies would be carried—what percentage of policies put into effect today, for instance, would actually be covering people still in the civil service after 10 years?—A. I should not like to guess at that. I have in mind that there is a turnover of roughly 20 per cent in the first two years of service, but I would not like to guess how many would remain in service to the end of the 10th year.

Q. Am I correct in saying there would be a substantial percentage of these insurance policies covering people who are not in the civil service after a certain number of years?—A. So far as this scheme is concerned, there will not be a policy issued to a person while he is in the service. If he leaves the service he will get a certificate or policy of some kind but it will be wholly up to him to request such a policy and to continue in the scheme. I do not know how many will want to continue the insurance after they leave the service. In ordinary company experience, there are not many conversions to whole life coverage on termination of service and usually the ones who do convert are those in poor health. Naturally, the experience is quite bad.

Q. Under this scheme we are discussing is there any provision for conversion to whole life?—A. No, the conversion would be to the same kind of coverage he would have enjoyed if he had stayed in the service.

By Mr. Fleming:

Q. Mr. MacGregor, you mentioned this afternoon that the rate which has been selected is necessarily experimental and may have to be changed. May I ask you how long it will take, in your opinion, if the scheme should be put in operation, to establish its actuarial sums?—A. Even after five years one should be able to tell pretty well, but the cost will be influenced by the rate of recruitment in the service and the proportion of older employees, which I think is bound to increase as years go by. There has been a substantial

recruitment to the service in recent years, but unless the service were to continue to expand at a fairly constant rate, I think there will be a general tendency for the service as a whole to mature, so to speak, and inevitably the percentage of pensioners will increase, both of which will tend to push the cost up a little, and it may be 10 or 15 years before one can say with any great certainty whether the rate should be as proposed or somewhat different. I think that after even five years one could tell whether the 40-cent rate should be continued or a change made.

Q. On the other hand, I was wondering, having regard to the provision in the bill for a review at the end of the fifth year of operation, whether it might not be desirable to have a review at an earlier date than five years?

—A. There is an annual report called for under the Act, and even from watching the account one should be able to tell fairly well whether the rate is substantially too high or too low. I should hesitate to recommend any change in the rate on the basis of one or two years' operations. I know from the experience under the gratuities scheme that there have been quite wide fluctuations in the cost from year to year. It has varied 100 per cent in some years compared with others.

Q. You spoke of the rate of recruitments and the possibility of increasing maturity among the men in the armed forces?—A. I was speaking more particularly in reference to the civil service on that point.

Q. We can appreciate that hostilities might have a bearing on the actuarial soundness of the scheme with regard to proposed rates, and with regard to what you had estimated to be the duration of service in the armed forces for the purpose of arriving at the figures.—A. We did not take into account the duration of service at all. We had data showing the strength of each branch of the forces from year to year and we had data showing the deaths in each force each year, but the scheme is primarily a current cost scheme, so to speak.

Q. I suppose that if a large number of men left the forces after, say, a period of three years of service or, let us say, if the duration of service is, as I am told, approximately an average of five years, the effect of that rapid turnover perhaps is going to strengthen the scheme?—A. It would tend to.

Q. If those who leave the services tend to continue their insurance.—A. If those who leave the service as a whole have the same age distribution as those who continue in the service, it will not make any difference.

Q. But your tendency is to replace men of 22 with men of 19?—A. If a large proportion of young persons leave the service, it would tend to, yes.

Q. On this matter of the armed services, you have indicated the fact that you are going to keep the accounts separate as between the armed services and the civil service. Am I right in concluding from your testimony that at the present time, barring the event of hostilities, there is more likely to be a surplus in the account for the armed services than for the civil service?—A. I would expect it, yes.

Q. Are you satisfied that under the bill there is no possibility of mingling those funds for the purpose of supporting one with the other?—A. There ought not to be any such possibility.

Q. The intention is that they are to be kept rigidly separate?—A. That is required under the bill.

Q. May I also infer that in your view it is not necessary to the practical operation of the scheme that the rates for the armed services on the one hand and for the civil service on the other be the same?—A. Is your question whether it is my opinion that they need not be the same?

Q. No, I say that I drew that inference from your observation. Is that a fair inference?—A. They need not be the same, no, but I think it is most desirable that the rate for the armed forces should be such that a good surplus will accumulate in their account to provide for war deaths, because it is anybody's

guess what those war deaths might be. If the rate were inadequate, it simply means that the account would run in the red and the rate would have to be increased later.

Q. I think we appreciate your reasoning on that, that at the start of this scheme you are taking a common rate for both civil service and armed forces. That may have some ease and simplicity of administration, but I just wanted to clear that point. There is no reason otherwise why the rates should be the same?—A. I should not like to say that the rate has been set the same for the armed forces as for the civil service solely in the interests of facility of administration.

Q. I did not suggest that. That could suggest itself to those framing the bill, having arrived at the rate on the basis of the civil service legislation and then at a later stage being asked to include the armed forces. I gather that when you made the study you concluded that the rate would provide perhaps a surplus in the case of the armed forces and that at that moment you decided it might be a good idea to have the surplus against the idea of hostilities?—A. That is just about it.

Q. Otherwise there is no reason for the identity in the rates?—A. No.

Q. There are a few points I would like to clear up for clarity's sake. Mr. MacGregor, you made a remark this afternoon just before the adjournment that in the case of group insurance schemes in which the cost was less than 60 cents, the cost to the employee bore a much lower rate on the average. I do not know whether I quite understood you. It was a remark you made on that point when you were dealing with the point that in practically every group insurance scheme the employer either pays half or sometimes even the whole shot. Will you relate that to the remark you made about cases where the cost was less than 60 cents?—A. Where the employee contributes, the maximum contribution of the employee is never higher than 60 cents per thousand per month in any group scheme. The reason is that it would be both unfair and impracticable to charge the younger employees, say, 65 cents a month or 70 cents, because they could go to a company and get an individual one-year term policy for probably \$7.50 or \$7.20 a thousand. They would not stay under the scheme. They would say, "I do not want to pay 65 cents; I will go to a company and buy a policy of my own, and I can do it cheaper." It is for that reason that the maximum contribution of employees is usually set at or below the level at which the youngest employees covered by the scheme could go and make their own insurance arrangements on a one-year term basis.

Q. In those various schemes you referred to, have you a figure that would represent an average cost to the employee after the employer has taken up his share, whatever it might be, of the premium?—A. I am sorry, I have no such data here, Mr. Fleming.

Q. In general, what do you say about the degree of satisfaction under which the present civil service insurance scheme is operating with the \$13,000 policies?—A. With reasonable satisfaction I should say. There are, of course, some disadvantages to the scheme. There are no cash surrender values while one is in the service, and no loan values, and so on. People sometimes want to get some cash while they are in the service and cannot. It is possible to surrender the policy after one leaves the service, or to take a reduced amount of paid up insurance. The beneficiary provisions, of course, are restricted. One has not the same latitude that one has under a policy taken from a company. Under the Civil Service Insurance Act the insured has to name his wife, or children, or some one or more of them, and if he has none, the insurance is paid to his estate. Those are things that are looked upon as disadvantages in the eyes of some persons. On the other hand, the scheme has the advantage of payroll deduction facilities and a somewhat more favourable premium rate than one can obtain from the companies.

Q. May I take it, as an insurance scheme of a kind it has been operating satisfactorily?—A. I should say yes, judging by the very few complaints we have had about it.

Q. I guess that is about as good a barometer as any.—A. Yes.

Q. I have one final matter, it is the compulsory factor with relation to group insurance. Do you know of any cases in Canada where group insurance schemes exist which are compulsory on the part of all members of the group except where the employer has borne the whole cost of the premium?—A. I am afraid offhand I do not know of any.

Q. We may take it from that that there are none, may we not?—A. Pretty well, I think, yes.

The CHAIRMAN: Mr. Follwell.

Mr. FOLLWELL: Mr. MacGregor I wonder if you would mind telling the committee when you initiated this study with respect to this particular premium of group insurance?

The CHAIRMAN: He said it was August of last year.

The WITNESS: One is always accumulating knowledge concerning these matters and making tests for this scheme or that, or an investigation in connection with some other scheme, so that it is not altogether a case where it is necessary for one to make an entirely fresh start, so to speak. We have quite a lot of data accumulated on these matters so that it is not too difficult to adapt them to whatever new situation may arise.

By Mr. Follwell:

Q. Did you do it on the direction of some department or some government official?—A. When we were advised that a scheme of this kind was likely to be adopted we were asked to suggest an appropriate premium rate and we made the necessary investigations.

Q. Who proposed this particular scheme. Did it come as a result of requests from civil service organizations, or was it just the result of an overall policy over the years of something that should be done?—A. I think it is the result of a combination of circumstances, Mr. Follwell. Some organizations and some persons were continually wanting civil service insurance enlarged or changed in some fashion. Yet there were some very good reasons for curtailing the scheme. On the other hand, it was well known that the service organizations, or at least some of them, looked favourably upon a scheme of group benefits. There has, of course, been continual enquiry on behalf of so-called temporary civil servants, and others in the forces who are not eligible for civil service insurance. And, with the revision of the Superannuation Act removing to a large extent the former distinction between permanents and temporaries it was inevitable that some further consideration would have to be given to the status of the former so-called temporaries.

Q. I think you said earlier that the largest group insurance was about 15,000?—A. I was guessing.

Q. Somewhere about that?—A. I have before me one group of 14,000.

Q. That was in Canada?—A. Yes.

Q. Is there a plan such as this in operation for the civil servants in the United States, or Britain, or any other country you know of?—A. No, not at the moment but they are giving consideration now to such a scheme in the United States of America.

Q. You have not the benefit of experience of other countries as yet?—A. No.

By Mr. Matheson:

Q. There is one small point which arose in my mind. I think it was established that there is no medical examination required for term insurance?—A. Not for group insurance.

Q. Group insurance.—A. Where the insurer insists that a relatively large proportion of those eligible at the inception of the scheme elect to come under it.

Q. In this policy?—A. There would be no medical examination, no.

Q. If a civil servant left the service I think you said he was eligible for the insurance?—A. To continue his coverage.

Q. Would he have to pass a medical examination?—A. No.

Q. Ordinarily in term insurance you do have to pass a medical examination?—A. Term insurance is sold on an individual and on a group basis.

Q. This would be on an individual basis.—A. Term insurance is sold by companies both on an individual basis and a group basis. Where it is sold on an individual basis the underwriting is often more strict than for permanent insurance, but there are individual term policies sold that are renewable or convertible, or both; those that are sold with a conversion provision in them are of a kind where a policyholder may before the end of the term convert to any whole life policy without a medical examination.

Q. I was trying to establish whether the man who was leaving the Civil Service would have an advantage in this case?—A. No. Where companies sell group term insurance there is always a conversion privilege included which gives the employee withdrawing from the group the right to choose a policy on any regular plan, usually other than term, at the regular rate, and without medical examination.

Q. There would be no difference in that case?—A. No difference in the rate, but there would be a difference in the kind of coverage he would get. Under this scheme he would continue to enjoy the kind of coverage he would have had, had he continued in the service.

Q. The premium he would pay would depend entirely on his age at the time?—A. Yes.

By Mr. Macdonnell:

Q. I have just one question. You referred sometime ago to the difficulty of companies having to do with the group insurance and men in the forces because of war risk. Am I right that in between the wars there were group policies covering military groups in Canada?—A. I am aware of at least one group covering employees at a military district in one particular city. Frankly, I am not sure offhand, Mr. Macdonnell, what was done with that group during the war.

The CHAIRMAN: Thank you, very much, Mr. MacGregor. Now, Mr. Taylor.

Mr. Kenneth Taylor, Deputy Minister of Finance, recalled:

The CHAIRMAN: Gentlemen, in the light of the information which was made available this afternoon, you may have some further questions to ask of Mr. Kenneth Taylor.

By Mr. Fleming:

Q. I understand that Mr. Taylor was going to bring to us the figures on the number of males and females respectively in the civil service.—A. That was one of the two questions which were asked me. I find that the records are available but that they have never been compiled. They are available in the central pay-office and they could be compiled but they have not been compiled. It would take some considerable time to work out a detailed report on the age, sex, and marital status of the entire civil service.

As Mr. MacGregor said, certain general information was available going back to 1947 and later, on which some of these calculations were based. The

other question which was asked me was in respect of how many civil servants was the statutory grant of two months' salary paid to widows or estates. The answer is that for the fiscal year 1952-53 444 civil servants died in office whose widows or estates received the two months gratuity, and the total amount was about \$250,000.

By Mr. Macdonnell:

Q. I asked Mr. Taylor if he had anything to show the average length of service in the army? Has he been able to get anything on that?—A. No, sir. The CHAIRMAN: Are there any other questions?

My Mr. Philpott:

Q. I read an extract from a letter this morning from a civil servant who thought that this scheme was a way for the government to make a lot of easy money. Is it true that the obligation of the dominion treasury under this new bill would be approximately the same as it is now?—A. Yes, sir, assuming normal mortality.

Q. So that your department has no interest one way or another in this financially?—A. No.

Q. And you do not stand to gain or to lose; in other words, this scheme if it goes through, is for the benefit of the civil service if they choose to take it?—A. Yes.

Q. Thank you.

By Mr. Hellyer:

Q. Do you have an estimate of the cost of administration for the plan? —A. No, we have not worked it out in any detail, but I ventured to hazard a guess last time that it might add 15 or so employees to our superannuation branch where we have about 112 now. That was a very rough estimate.

Q. Is it anticipated that a cost accounting system would be set up, whereby the cost would be ascertained, or would it be more cumbersome than it would be worth?—A. I have not given any detailed consideration to that point.

By Mr. Noseworthy:

Q. I wonder if Mr. Taylor would be prepared to comment on the effect of some of the major recommendations that we received this afternoon, and what effect they would have on the scheme?—A. A good many of them are matters of detail and are rather technical and I would not be able to answer as to how much they would increase the cost of the scheme. However, I could make one or two general observations.

The first observation I would make is that this is clearly not a bill designed to meet every need of every group in the public service. It is a highly specialized bill to meet a particular need which, if not completely universal, is at least very widespread.

I think that Mr. MacGregor covered most of the points in connection with the suggestions that there should be various options, and indicated that it is quite impracticable to run any group insurance scheme where those under it have the right to "opt" as to whether they get a higher or a lower benefit.

You could apply that to classes uniformly. It would be quite practicable, for example, to exclude all single women or all single women of a certain age-group. That would have some effect on your rates, of course. But I do not know just how much.

When you come to this exclusion idea, in the National Joint Council, which operates the hospital and medical insurance scheme we have two rates, one for single and one for married persons. The individual rate cover only the

individual while the married rate covers the married civil servant and all his dependents. I was struck with the very numerous and sometimes quite bitter complaints which we got from single people because they were not allowed to pay at the married rate and thereby cover all their dependents. It seems whatever we do is wrong.

The CHAIRMAN: How true!

The WITNESS: Then I would like to observe in connection with the government's contribution that, as Mr. MacGregor pointed out, in private company schemes it is probable in this country that in the majority of them the employer pays one half, while in this scheme the government pays, roughly $\frac{1}{6}$ of the cost plus the cost of administration. I think that should be viewed in the light of the total superannuation scheme.

It may be that on this particular aspect of it the government's contribution does not match the common practice in private industries but our superannuation scheme as a whole, is, I think substantially more generous or more satisfactory than any you will find in private industry.

Therefore I think that the government's participation in this whole program of pensions and death benefits must be considered as the whole. The government's total contribution is very, very substantial.

One other point is the question of these consultations with the civil service organizations. There was a difference between the armed service and the civil service which has been mentioned several times. The National Joint Council covers the entire civil service in a representative manner but it does not include the armed forces at all. When the armed services asked that they be authorized to consult their area commands, that authorization was granted. The form of consultation, let me say quite frankly, was a little wider than I had expected when that authorization was given.

We felt we had to tell the National Joint Council that the matter was confidential because the problem was one of relationship between the government and the civil service and parliament.

In my experience the government has never referred impending legislation of this significance to the National Joint Council before. Even the Superannuation Act which was passed last year, which was a very major piece of legislation affecting the Civil Service, was not referred to the National Joint Council. It was referred to the advisory committee on superannuation, which is a much smaller and quite distinct body. The National Joint Council was informed in general terms of what was intended, but the bill was never referred to them.

In this present case the National Joint Council was consulted and invited to express views and make suggestions. It is true that the staff side would have liked to consult with their executives and organizations right down the line, but because of the general policy that impending legislation should not be disclosed until the government was ready to put it before parliament, that authorization was withheld.

This Act may not be perfect. I think it is a very good plan and it can of course be reviewed in the light of experience and if, after experience, the civil servants who are primarily concerned want to suggest getting a little more benefit for a little higher cost, or a little less benefit for a little lower cost, the Act can be reviewed from time to time.

The CHAIRMAN: Mr. Fraser.

By Mr. Fraser (Peterborough):

Q. Mr. MacGregor said that unless a person had left the service and wished to carry on, that they would get a policy. Then, would you give them in the meantime anything at all to show that they are carrying this insurance?—

A. It was not intended to do so.

Q. Would you think there might be some misunderstanding as to the benefits under this scheme?—A. As I said, at a previous meeting of the committee, we intend to prepare the usual informative booklet which would be supplied to all civil servants through their personnel officers, and it would describe the scheme, the nature of the coverage and so on.

Q. They would be given to everyone in the civil service?—A. Just as we now do with the Superannuation Act.

Q. And the only way they would know about it—their people and relations—would be by the reduction from their pay cheque. That is the only indication they would have as to the amount of insurance they were carrying?—A. I presume as each employee is taken on he would have his usual half day interview with the personnel officer of the department introducing him to his job, and the personnel officer would explain it just as they explain other conditions of employment, the entitlement to leave and superannuation, entitlement to death benefits and so on.

Q. And as his salary increases, which it does in the civil service, the policy would increase along with that?—A. Yes.

The CHAIRMAN: I have one question which you may not be able to answer. Mr. Johnston, the spokesman of the Civil Service Association of Ottawa, has this to say in discussing some of his group's recommendations: "The inevitable expenses of death can be fairly adequately covered by participation in the existing Civil Service Mutual Benefit Society, which provides \$1,000 worth of full life insurance for a moderate premium." What is that premium?

The WITNESS: I have here the annual report for the year 1953 of the Civil Service Mutual Benefit Society. The rates per thousand per month at age 21 would be \$1.08 and so on down to age 50 when it would be \$2.98 per thousand per month—taking the top and bottom. Now, of course, that is not the same type of insurance as in this bill.

The CHAIRMAN: I realize that.

Mr. FLEMING: There are benefits mentioned in there. What are some of those benefits, by the way?

The CHAIRMAN: We are now off on another subject.

Mr. FLEMING: But you have introduced another figure, and in the case of any comparison I think it should be made clear that those things are quite different.

The CHAIRMAN: I do know that they are quite different. He said there were other benefits.

Mr. FLEMING: They should be cleared up now—they were introduced.

The WITNESS: I am not familiar with the details. I am not a member of this society. I only have their booklet here. I will quote from the annual statement of the Civil Service Mutual Benefit Society: "A member may at any time commute and pay in one lump sum all his future regular assessments." Remember, this is a mutual benefit society of the civil service. "There is no medical examination if the board is satisfied that the applicant is a good risk. Benefits are granted for \$250 or \$500. In the event of death during the first year of membership the benefit payable per each \$250 is as follows: in 1st 3 months, \$50; in 2nd 3 months, \$100; in 3rd 3 months, \$150; in 4th 3 months, \$200; thereafter \$250. An increase of \$250 is subject to like limitations in the event of death during the first year following the increase. A member originally admitted for \$250 may, if still in the employ of the dominion government, increase to \$500 if in good health and not over 50 years of age."

The CHAIRMAN: Do you mean the beneficiary?

The WITNESS: Yes, and the limit is now \$1,000, I believe. Moreover this is, I understand, a participating plan and these groups amounts might be reduced by dividends and so on.

The CHAIRMAN: Mr. Johnston?

By Mr. Johnston (Bow River):

Q. You spoke a moment ago about discussing this with the joint council and you advised them to keep it secret because that was a matter of policy, is that right?—A. Yes.

Q. Who set that policy?—A. Any civil servant who is aware of pending government legislation knows that he is not permitted to talk about it with anyone outside of those who are authorized to know about it. This was a bill to which the government was giving consideration. It is a standard rule in the civil service that one does not go around talking about matters which are being submitted to cabinet. I was specifically authorized and directed to refer this to the joint council.

Q. I understood a witness to say this afternoon that this was the first time that secrecy was involved.—A. This is the first time to my knowledge that a bill was ever submitted to the joint council.

Q. And would the same policy apply to the armed forces?—A. As I said, in the case of the armed forces that they were authorized to consult their area and regional commands because the minister had discussed the matter with the national joint council.

Q. But it was not to go beyond the regional commanders?

The CHAIRMAN: No, he did not say that.

Mr. JOHNSTON (*Bow River*): Let the witness answer. He just said a moment ago it was not to go beyond the regional commanders.

The CHAIRMAN: You stopped him, when he was about to finish his sentence.

Mr. JOHNSTON (*Bow River*): He stopped himself.

The CHAIRMAN: No, he was going to finish by saying what he will now say. He knows what he is going to say. I do not have to help him.

Mr. JOHNSTON (*Bow River*): I thought you were sitting up there to help him out.

The CHAIRMAN: He doesn't need help from me.

The WITNESS: I did not say "regional commanders" but regional commands.

Mr. JOHNSTON (*Bow River*): And it was to stop there apparently?

The WITNESS: I did not say the regional commanders.

Mr. JOHNSTON (*Bow River*): What did you say then?

The WITNESS: The regional commands.

The CHAIRMAN: That is quite different.

The WITNESS: As I said, and I will be quite frank with the committee. When that instruction was given we had not envisaged the consultation going quite as far down the line as it did. My minister was quite annoyed when he read all about it in the newspapers, because as you said this afternoon there are almost bound to be leaks.

Mr. JOHNSTON (*Bow River*): Do you mean that is where it leaked out, through the army? Oh terrible!

The WITNESS: I do not want to take the credit away from Mr. Hume. He published it in a good deal of detail on February 2 long before the army had it.

Mr. BENIDICKSON: Mr. Jackson was in there, too, I think!

The WITNESS: But the story in the *Ottawa Journal* on April 14, which was shown to the committee this afternoon, if you read the whole column you will find it refers specifically to the army consultation.

Mr. JOHNSTON (*Bow River*): It was not intended by your department to have it made public to the armed forces. That was a leak, was it?

The WITNESS: We did not expect it to go quite as far as it did. We did not try to tell the army how they were to consult their regional commands. Perhaps there was a misunderstanding there. I was a little surprised, frankly, to learn that in some cases thousands of individuals had been consulted. That was frankly a misunderstanding.

Mr. MACDONNELL: It was done in confidence though.

Mr. JOHNSTON (*Bow River*): In view of the fact that very few of the rank-and-file of the civil service knew anything about the bill, I would not say that about the army, because apparently they said nothing about it. In view of the fact the civil service representatives said they did not have sufficient time to contact their membership, do you not think it would be a good thing if we were to allow this bill to stand over for a while—perhaps until the next session—and give them ample opportunity to discuss it, and then if they want it all right, and if they do not want it, all right?

Mr. BENIDICKSON: That is scarcely a fair question.

The WITNESS: I cannot answer that question. That is a matter of government policy or a decision of the committee.

The CHAIRMAN: All right, Mr. Philpott.

Mr. PHILPOTT: Has any consideration been given to bringing M.P.'s in under this scheme?

The WITNESS: They have not asked for it yet.

The CHAIRMAN: You have something there, Mr. Philpott. There would be no complaints from the M.P.'s if they had the opportunity.

Mr. FLEMING: I think perhaps your introducing this matter of the Civil Service Mutual Benefit Society was a little unfortunate. I have been looking at a pamphlet that Mr. Taylor was referring to. It is the annual report of the Civil Service Mutual Benefit Society for the year 1953. It is not the policy; it is simply the annual report. There is reference here to bonuses payable in addition to the benefits, and I think that Mr. Taylor will agree that he has not attempted to give a complete review of the terms and the benefits paid.

The WITNESS: This morning when the Civil Service Mutual was referred to, I asked one of my assistants if he would find out what the civil service mutual rates were in case the question was asked, and I had not seen that pamphlet until about half an hour ago. I gave those rates off the front page, which, as I said, the gross rates for quite a different type of coverage.

The CHAIRMAN: This concludes our examination of the evidence. We will adjourn until tomorrow morning at 11.30, we will then deal with the bill section by section. It is very important that all you be on hand for the purpose of expressing your views.

Mr. FLEMING: Mr. Chairman, you speak about approaching the bill section by section tomorrow morning. That raises a question as to whether there is a determination to press this bill forward with what is obviously haste, notwithstanding the evidence we have heard today about the necessity for further consideration.

The CHAIRMAN: All I can say is that this Bill has been sent to the committee and it needs to bring in a report. We have heard the evidence, and while the evidence is fresh in our minds that is the time to deal with it, tomorrow morning seems as good a time as any. We need to get this Bill into the House as quickly as possible.

Mr. MACDONNELL: I want to say this. We have heard reports today that raise a multitude of questions about this bill, but we are now being asked to meet tomorrow morning to rush this through, whether or no. We have fallen

in with your suggestion today and sat all day, and the idea that we may perhaps be forced to do the same tomorrow seems to me to be unreasonable and unfair.

The CHAIRMAN: It is not a matter of falling in with my ideas. I gave way to suggestions of members of the committee.

Mr. MACDONNELL: There have been quite a number of people who represent groups of civil servants, suggesting that they want time. Are they all to be ignored?

The CHAIRMAN: The House requires this Bill in as quickly as possible. We have had their views on the extension of time. The committee can express their view as to whether there was ample time or not.

Mr. NOSEWORTHY: Can the committee recommend that the bill be held over till next year, if it so desires?

The CHAIRMAN: A committee member will be able to so move.

Mr. MACDONNELL: If anyone had any thought that we were going to adjourn next week I could understand the tremendous haste, but nobody believes that. I can see no reason why we should not have a chance to think this over in the week-end and meet on Tuesday. I do not believe there is any real reason against it, and I suggest to you earnestly that you take that into consideration.

The CHAIRMAN: What will we know about all this on Tuesday that we do not know now?

Mr. MACDONNELL: I will tell you. First of all, we would have the printed record.

The CHAIRMAN: I do not think the printed record will be available. The evidence is fresh in our minds, which is better than the printed record.

Mr. FRASER (*Peterborough*): It is fresh in our minds, so that we know that the people who appeared before us told us that they would like to find out from their own people just exactly what is wanted.

Mr. MACDONNELL: Mr. Chairman, you will agree that this is a first-class piece of railroading. I am not using the expression in any offensive sense at all. Let us say that you are pressing us.

The CHAIRMAN: It is not a matter of pressing. It was a week ago when we had our first meeting.

Mr. MACDONNELL: That was for the civil servants to get their information. You are not going to suggest that you gave them too much time?

The CHAIRMAN: They asked for the time, and they got the time they asked for. To delay this till Tuesday seems to have no purpose.

Mr. MACDONNELL: I am suggesting that there is no real reason why it should not wait till Tuesday.

The CHAIRMAN: I am willing to make this alternative: Friday or Monday, when we do deal with the Bill?

Mr. MACDONNELL: You know that it is difficult for many people to come here on Monday. You have been very patient. Do not cease to be patient now. Let me suggest to you again that we are not going to be out of here in a week. An extra day, from Monday to Tuesday, is not going to matter. You know that as well as I. It would be fair to give that extra time when there are some people who cannot be here on Monday and when there is plenty of time for the whole situation to develop.

The CHAIRMAN: I am of the opinion that the committee wants to deal with the Bill now. That is the view I got from the committee—tomorrow morning or Monday.

Mr. MACDONNELL: It is very easy, if I might say so, to send around to suggest to a lot of people—

The CHAIRMAN: I have not sent around to suggest anything to anyone.

Mr. MACDONNELL: Not to me, that is true.

The CHAIRMAN: Nor to anyone else. I have not talked to any member of the committee this evening.

Mr. MACDONNELL: I withdraw that.

The CHAIRMAN: I have merely attempted to find out who will be here tomorrow, who will be here Monday, and who will be here Tuesday. I find that we will have a fairly good number of the people here tomorrow—

Mr. MACDONNELL: Is there any difference between Monday and Tuesday?

Mr. MONTIETH: I think that there are a good many questions that we should be given a chance to assess.

Mr. PHILPOTT: With all deference to Mr. Macdonnell, I think we will be able to give every consideration tomorrow to the discussion of the points that have been very clearly raised here today, that is the compulsory feature and whether or not it should be delayed. With all deference to those points—and I sympathize a great deal with them—I believe that they can be decided just as intelligently tomorrow as they can on Monday. Speaking for those of us who come from the far west, may I point out that it is a very serious matter indeed, and we cannot afford to stay around in Ottawa the whole year long.

The CHAIRMAN: Adjourned until tomorrow morning at 11.30.

HOUSE OF COMMONS

First Session—Twenty-second Parliament, 1954

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: DAVID A. CROLL, *Esq.*

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 32



BILL 463

An Act, to amend the Public Service Superannuation Act.

MONDAY, JUNE 7, 1954

REPORT TO THE HOUSE

MONDAY, June 7, 1954.

The Standing Committee on Banking and Commerce begs leave to present the following as a

NINTH REPORT

Your Committee has considered Bill No. 463, An Act to amend the Public Service Superannuation Act, and has agreed to report the said Bill with amendments.

A copy of the evidence adduced is appended hereto.

All of which is respectfully submitted.

DAVID A. CROLL,
Chairman.

MINUTES OF PROCEEDINGS

MONDAY, June 7, 1954.

The Standing Committee on Banking and Commerce met at 11.30 o'clock a.m. this day. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Ashbourne, Benidickson, Boucher (*Restigouche-Madawaska*), Cameron (*Nanaimo*), Cardin, Cresthol, Follwell, Fraser (*St. John's East*), Hanna, Henderson, Huffman, Hunter, Johnson (*Kindersley*), Johnston (*Bow River*), Low, Macdonnell, Matheson, McMillan, Michener, Monteith, Noseworthy, Philpott, Robichaud, Stewart (*Winnipeg North*), Tucker, Weaver and Wood.

In attendance: Mr. H. D. Clark, Finance Officer of the Department of Finance.

The Committee commenced a clause by clause consideration of Bill No. 463, An Act to amend the Public Service Superannuation Act.

Clause 1 was considered and adopted.

Clause 2 relating to the proposed new Part II (Supplementary Death Benefits) to the Public Service Superannuation Act was called.

On motion of Mr. Benidickson, the following proposed amendments to Part II were placed before the Committee:

1. That the proposed new section 39 be amended by adding thereto the following new subsection (4): (4) *For the purposes of sections 40 and 41, in calculating the period during which a person has been employed in the Public Service (in this subsection called "public service") or has been a member of the regular forces (in this subsection called "military service"), public service shall be deemed to be military service and military service shall be deemed to be public service.;*
2. That the proposed new section 42 be amended by deleting the words "an amount equal to" where they appear in the 1st and 2nd lines of the said section and substituting therefor the following words: *to the Consolidated Revenue Fund at the rate of;*
That the said section 42 be further amended by deleting the words "multiple of" where they appear in the 2nd line of the said section, and by deleting the words "on leave of absence" where they appear in the 5th and 6th lines of the said section and substituting therefor the words *absent from duty.*
3. That paragraph (d) of subsection (1) of the proposed new section 50 be amended by deleting the words "on leave of absence" where they appear in the 2nd, 3rd and 4th lines in the said paragraph and substituting therefor the words *absent from duty;*
Subsection (1) of the proposed new section 50 is amended by deleting the word "and" where it appears at the end of paragraph (h); by relettering paragraph (i) as (j) and inserting after paragraph (h) the following new paragraph (i): (i) *prescribing the circumstances in*

which a deceased female participant who, in the opinion of the Treasury Board, was at the time of her death living apart from her husband by reason of his desertion, shall, for the purpose of this Part, be deemed to have died leaving no spouse; and

The said proposed amendments were considered and adopted.

Clause 2, as amended, was considered and adopted.

Clause 3 and the Title were considered and adopted.

On the question "Shall I report the Bill, as amended" being proposed by the Chairman,

Mr. Macdonnell moved,

That the Chairman do now leave the Chair.

And the question having been put, the said motion was resolved in the negative. Thereupon the Chairman again proposed the question "Shall I report the Bill, as amended".

Ordered,—

That the Chairman report the Bill, as amended, forthwith.

At 12.10 o'clock p.m., the Committee adjourned to meet again at the call of the Chair.

R. J. GRATRICK,
Clerk of the Committee.

EVIDENCE

June 7, 1954,
11.30 a.m.

The CHAIRMAN: I see a quorum. Gentlemen, this morning we are considering Bill 463 clause by clause. You will note that Part I is clause 1 and Part II is clause 2 and includes sections 39 to 51.

Mr. MACDONNELL: May I say one word?

The CHAIRMAN: Just for your own information, when we carry clause 1 we carry Part I, and when we carry clause 2 those sections are all carried.

Mr. MICHENER: There are just two clauses?

The CHAIRMAN: Three clauses.

Mr. MACDONNELL: As you are aware I am going to move that in effect the bill not be reported. I would like to make this comment first. We feel opposed primarily for two reasons: we do not think there was adequate consultation, and secondly we do not like the compulsory feature. For those reasons we shall be constrained to vote against the clauses.

The CHAIRMAN: Gentlemen, you have the bill before you. Shall clause 1 carry?

Carried.

Shall clause 2 carry?

Carried.

Clause 3. There are some amendments. Mr. Benidickson will explain the amendments.

Mr. BENIDICKSON: The amendments are numbered, as you will see, 1, 2, 3, and 4. Now, the first amendment would permit a person who had a combined period of service of five years in the regular forces and the public service to elect to continue under the plan on retirement. The original bill required a five year period in one or the other.

The CHAIRMAN: Shall the amendment carry?

Carried.

Mr. BENIDICKSON: Amendment number 2. The purpose of this is to make clear that when the reducing factor applies after age 60 that the amount of contribution decreases proportionately with the benefit available.

The CHAIRMAN: Shall the amendment carry?

Carried.

Mr. BENIDICKSON: The third amendment is explained this way: the original clause 50 (1) (d) covered only the cases of persons on leave of absence, but it is considered necessary to deal with those absent without leave as well. "Absent from duty" as is proposed in the amendment is actually the wording that is used in the Civil Service Act itself.

The CHAIRMAN: Shall the amendment carry?

Carried.

Mr. BENIDICKSON: The fourth amendment: the bill provided that a benefit should not go to a widow who had deserted the family, and this amendment provides that where the employee is a woman and the husband has deserted her, the benefit would not go to him, but to her estate.

The CHAIRMAN: Shall the amendment carry?

Carried.

Shall the title carry?

Carried

Shall I report the bill, as amended?

Mr. MACDONNELL: Mr. Chairman, I would like to move at a later stage "that the chairman do now leave the chair", which I understand is the proper form for moving in effect that the bill be not reported.

As I have indicated already I do this on the ground that it seems to me that the whole procedure here has been hurried without need and that we are being railroaded—Mr. Chairman, I am not suggesting that word in any offensive sense because after all you, Mr. Chairman, did not prepare the bill—we are being railroaded into an Act because all the evidence before us shows that there is a great deal of objection. It seems to me that this bill got lost and that it should have been a matter for discussion with the civil service instead of coming to the House of commons in final form to be passed as legislation. How does government legislation arise? Is it not after adequate discussion is had with the parties concerned? When we had the Bank Act before us we had experts before us and held many meetings and considered their viewpoints, and it was only after that that we passed the legislation. When the Income Tax Act was revised some years ago there was the widest discussion. I remember the Minister of Finance accentuated that, and it was very true. Here we had a confidential disclosure confined to a small group who were then bound over to secrecy. This small group, as has been stated, was not regarded by the civil servants at large as having any authority to make commitments or express any opinion on their part. Now, why all this secrecy? There has been no explanation as I recall given for this whatever. What have we now? Have we a wide open discussion with information now available? There has been no opportunity for the people who are interested to move amendments to the bill. What we have is the bill, the whole bill and nothing but the bill, with these minor technical amendments which came in this morning. In other words, we have over 200,000 people compulsorily included in a scheme for which they have not been consulted and on which they received information only a few days ago. I am not overlooking the newspaper leak, but I do not think that the government will suggest it is a satisfactory way of informing people. I say again: why was there all the secrecy? If there ever was a case where there should have been discussion this would seem to be it. We all can imagine the storm of protest which would arise if a private business announced to its employees a compulsory scheme, of which they would pay five sixths, if they had no chance to make representations. I think there would be a loud outcry. Would it not have been worthwhile to find out how many are insured now who feel they are carrying all the insurance that they can carry? Would it not be worthwhile to find out as it is represented as a burial matter? How many would like a \$1000 minimum? Would it not have been reasonable to find out how many are opposed, particularly among the young unmarried women? The consultation of the men of the forces who were consulted gave us a very uncertain answer. Were they reminded before they gave the answer that their combat insurance was taken care of under the Pension Act? Were they reminded that when they leave the forces after say five years they lose their money or have to pay the rest of their lives to stay in the scheme?

Really, as I listen to my own words now I am filled with fresh astonishment because, as I say, no reason has been given for this. It is no wonder that one of the representatives used the word "arbitrariness" and also the phrase "authoritarian paternalism". Every single representative of the Civil Service—

five in all—had serious questions to raise. Every one of them objected in strong, or stronger, phrases about the neglect to consult them, and every one has raised questions about the compulsory feature.

Considering the hard position of those civil service officials who were before us the other day, I must say that I was surprised, first of all, at the comparative adequacy of the statements they brought in the short time. Secondly, of course, I was amazed—I should no say “amazed”, but I was staggered—again to realize how many of their people that they had been able to consult with expressed objections, and certainly I was surprised at the loud and clear manner in which those comments were made. Mr. Gough told us that they had communicated with 80 branches and had had time to hear from only five. Those five indicated a very considerable amount of opposition. You will remember the Vancouver wire that he had, and his statement that 165 out of 177 female employees vigorously protested the compulsory feature. You will remember also that he said that in his office here he was literally deluged with calls from the opposite sex protesting the bill.

One other matter: the present Civil Service Insurance Act is to be abandoned. That is a regret to many of those who have been insured under it. If I might use a parliamentary figure to indicate the position on this bill, so far as the people who are to be the beneficiaries under this Act are concerned, it is just as if we had reached the third reading of the bill without any resolution stage and without any second reading. We are going to be presented here with what I was going to say was a case of “take it or leave it”, but what is really a case of “take it and like it”. I suggest most earnestly, even now, that the sensible course would be to withdraw the bill and proceed now to do what should have been done, to discuss the matter with the civil service personnel through their representatives, as any good employer would do and, in the meantime, leave the Civil Service Insurance Act in force as before.

I am not going to take the time of the committee to attempt to set out in detail all the suggestions made for changes. I think that we could count them literally by the score; certainly there are well over a score, and I should think over two score. But I wish to remind the committee of the extraordinary unanimity and the firmness of the representatives of the civil service in complaining, first of all, that there had been no opportunity for consultation. I would like to read a few extracts covering that point, and then a few covering the objections to the compulsory feature, and I shall be reasonably brief in all, Mr. Chairman.

Firstly, on the question of consultation, this is what Mr. Gough says, speaking on behalf of the Amalgamated Civil Servants of Canada, at page 1 of his letter:

In the matter of death benefits, and not to labour the point, no organization on the National Joint Council had authority to either consult national executives or membership until Wednesday, May 26. On which day the second reading of the bill was given in the House of Commons. From that date to this being far too short a time to afford proper consultation. Therefore, in consulting the National Joint Council some twenty individual views were obtained by the government. It being clearly understood that no staff-side representative could be considered as speaking for his or her organization.

Now I come to the Professional Institute of the Public Service of Canada. They say:

The Professional Institute regrets that the public service was not asked beforehand for an expression of the opinion of a good cross-section of all units on the radical departures involved in this plan as the armed

forces were. In effect the preliminary negotiations for this scheme took the form of consultation with members of the National Joint Council and one of its subcommittees as individuals only, not as representatives of their organizations. Consequently, the view of the institute is that the public service was not given an opportunity to consider the proposed plan before Tuesday, 25th May, 1954.

Now the next is the Civil Service Federation of Canada. They say:

The various staff associations affiliated with the Civil Service Federation of Canada protest strongly the fact that they were not given an opportunity to study the plan before the bill was introduced.

We come next to the Civil Service Association of Ottawa. They say, at page 7—this is Mr. Johnston speaking:

I will conclude with a comment as to my understanding of the position taken by the National Joint Council in connection with the subject matter of this bill. Much of the evidence provided by Mr. Taylor to this committee on Thursday last dealt with this, and the Minister of Finance the day previous had said, "I can inform the House that the National Joint Council has endorsed the broad outlines of the plan as a whole".

Mr. Johnston continues:

It is my understanding that the National Joint Council, as an employer-employee council, was not in a position to make any endorsement of the plan, as most of the staff side representatives were only able to express their views as individuals. This proposal was presented to the council in a very unusual way, which involved the strictest secrecy on the part of all members of the council. The staff side were unable to deal with this subject in the normal way, by taking it back to their associations for guidance. The staff side cannot function as part of the council unless the association representatives can speak on behalf of their associations. And, unless the staff side is allowed to proceed in this way, the council itself cannot function as an employer-employee body.

Coming last of all to the D.V.A., Mr. White said:

The majority of us are very gravely concerned with the arbitrariness of the legislation.

This is on the question of arbitrariness.

Now I come to the question of compulsion. First of all, Mr. Gough says:

I am in no position today to support the bill in all its aspects. From a sampling of opinion received today, however, it appears that the principle of the bill is widely acceptable. On the other hand, opposition is developing to the compulsory feature. In evidence of this I would cite a telegram received from our Vancouver Local Council, a council with a membership of close to one thousand.

Vancouver Local Council agree in principle to life insurance (death benefits) scheme but protest compulsory clauses.

Again he says:

I would, therefore, on behalf of my organization very strongly and heartily support the principle of the bill, and in this also express to the government our appreciation. On the other hand, I must just as strongly oppose the compulsory features of the bill, and request the same be amended so as to provide that the plan become elective.

Now, the Professional Institute on that point says, at page 3:

The compulsory nature of the proposed scheme is objected to by a number of individual public servants. It is felt that they have certain rights as individuals, irrespective of what the majority view might be. The large number of public servants who will benefit from the scheme are not entitled to enjoy unusually low premium rates if these rates are based on compulsion applied to individuals who would prefer not to be insured.

It is, therefore, felt that those already in the civil service should be given an opportunity to remain out of the scheme, thus staying under the Civil Service Act, section 56.

Now I come to the Civil Service Federation of Canada, at page 1.

It is recommended that civil servants be given the option as to whether they contribute in accordance with the amount of their salary or up to \$3,000, say, to a grade 4 level; and on the amount of their salary or \$5,000 above that level.

Further, on page 2:

It is recommended that the compulsory feature of the Act in regard to employees having reached age 60 be changed to give them the right to elect for participation.

There are other suggestions, but I shall not take the time to read them. The Civil Service Association of Ottawa at page 8 of their brief has recommended: "... that further consideration be given to the universal, compulsory feature of the present bill." And the D.V.A. says: "the majority of us are very greatly concerned with the arbitrariness of the legislation. We feel strongly that any bill concerning the entire body of civil servants should be brought to the attention of that body before such legislation is introduced in the House of Commons. Such disregard of the will of the people seems to bear the taint of authoritarian paternalism and makes us wonder about this as a criterion for the future."

I shall not worry the committee by going into the details of criticism. All of us who have read the record will realize that any number of recommendations were made. I think we will have been most impressed by the emphatic objections raised to the failure to consult and also by the objections to the compulsory feature. Again and again the objections of unmarried women in the service are referred to.

In one instance you will remember that it was reported that out of 177 consulted, 165 were against. Moreover, I have doubts about the men in the forces. Mr. Armstrong gave us a frank and fair picture, but all he could do was to inform us of the instructions which he sent out and of the answers received.

I would like to know if the men in the forces had reported to them that under the Pension Act combat risks were taken care of. I feel that it is open to great doubt if the men in the forces had any real opportunity to consider these things in a deliberate manner. The speed with which the enquiries went out and the returns were made would make one doubt it.

And as I said the other day, perhaps a little too emphatically, it seems to me that if the men in the forces had been reminded (a) of their combat rights and of the effect of the Pension Act upon combat risks, and (b) if it had been pointed out to them, let us say, that a boy of seventeen who was enlisting

for a period of 3 years, when he leaves must either lose all the money he has put in or keep on paying until he reaches an age which must look to him like that of Methuselah, then Mr. Armstrong's frank picture would not indicate more than a kind of shadowy answer.

To summarize briefly: I have stressed the universal objection of the civil service representatives and the need of consultation; I have stressed their almost equally strong—perhaps full equally strong objection to the compulsory feature; and I have reminded you of the strong opposition of the women, particularly the unmarried women and those who are already fully insured to being cut off by the “sloping-off” process, I think it is called, at from 60 to 70.

What I consider to be the sensible thing to do is to delay the bill, to comply with the suggestions made, and to allow the civil servants to have their day in court and to express their views on it. If this were done there might be another opportunity to try to reach an arrangement after proper consultation.

But if this bill is now proceeded with against unanimous opposition of the civil service representatives who appeared before us, surely it will constitute an arbitrary action, one which representatives have termed as “authoritarian paternalism”. Moreover it will be proceeding without more than the slightest pretense of consultation and in the face of unanimous criticism. There is a compulsory feature in the bill and it is that which every representation objected to. We should never jam through a measure of such serious importance to more than 200,000 public servants. If this bill is presented by this committee to the House of Commons—after the representations we have heard and knowing as we do the strong feeling against it, and is without further consultations—I suggest, Mr. Chairman, that it really means that this committee is making a report utterly regardless of the weight of evidence which has been presented to it. I move that the chairman do now leave the chair.

The CHAIRMAN: Mr. Low, were you looking at me?

Mr. Low: Yes, and I would like to say just a word before the vote is taken on the motion.

We have given this bill our most earnest consideration and study and we would like to say at the outset that with the purposes of the bill we find ourselves in complete agreement. While we think that the purposes of the bill are good and admirable, nevertheless there are some things in the bill which we feel are inadequate, particularly the “sloping-off” process. Under that process after the age of 60 the benefits will begin to run out and will expire at the age of 70 which is the very time when retired civil servants may most need them.

And we feel there are other factors that should be given earnest consideration. To begin with we think the compulsory feature requires the consent and support of a great majority of those affected before the bill is proceeded with. In this point we feel there is a principle involved which we think should be carefully considered before action is taken. I refer to this principle in the bill under which we are proposing to inflict upon a large group of people certain compulsory obligations against which many of those consulted are taking the strongest objections, and the indications are that many more would take objection, if there was time in which to consult them.

On the whole we feel that there has not been enough effort made to consult those people who are affected. That seems to be the complaint offered by nearly every witness who appeared before us. They felt that there should have been sufficient time given in which the rank and file of the civil service could be consulted and to have their wishes obtained.

We realize, of course, that there are many circumstances in life and in government where people may find it necessary to surrender some of their freedoms for the common good, particularly their freedom of choice. And we

realize, of course, when a man does such simple things as marrying a wife or taking a job with an employer, that he loses some freedom to his wife and to his employer. But the important thing is that it is the way he wants it.

Mr. HENDERSON: Not if his wife had a shotgun.

Mr. Low: And that, of course, puts a different complexion on the whole business.

We feel that the important thing to remember is that if people are going to surrender some of their freedoms, they should first be given a chance to say whether they want to do so or not. Under the circumstances in this case we do not feel that those who are concerned with this bill have been given that opportunity, and that until they have been, it is simply telling the majority of them that they must be prepared to accept the compulsory feature.

We think that the bill should not be proceeded with. The compulsory aspect of it forces upon a good many citizens the necessity of making contributions, and a good many civil servants can never expect to get any benefit from the bill.

Under those circumstances—not wishing to destroy the bill or prevent it from passing at some time—we would like to see more consideration given, and therefore we are prepared to support the motion moved by the member for Greenwood: “that the chairman leave the chair.”

The CHAIRMAN: Mr. Michener, do you wish to speak?

Mr. MICHENER: No.

The CHAIRMAN: You have heard the motion which is “That the chairman do now leave the chair.” All those in favour of the amendment, will please signify?

Five.

All those opposed?

I declare the amendment lost. The bill is carried I shall now report the bill as amended.

That concludes our work—I hope—for this session. I wish to thank you very much for your attention and diligence. I am sure that this bill, in the end, will meet with massive support.

Mr. Low: I now move a vote of thanks to what I consider to be a very fair and competent chairman.

Mr. MACDONNELL: I second the motion.

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